



## EUROPEAN COMMISSION

Directorate-General for Financial Stability, Financial Services and Capital Markets Union

HORIZONTAL POLICIES  
**Sustainable finance**

### CONSULTATION DOCUMENT

### CONSULTATION ON THE RENEWED SUSTAINABLE FINANCE STRATEGY

#### **Disclaimer**

This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.

The responses to this consultation paper will provide important guidance to the Commission when preparing, if considered appropriate, a formal Commission proposal.

You are invited to reply **by 15 July 2020** at the latest to the **online questionnaire** available on the following webpage:

[https://ec.europa.eu/info/publications/finance-consultations-2020-sustainable-finance-strategy\\_en](https://ec.europa.eu/info/publications/finance-consultations-2020-sustainable-finance-strategy_en)

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses.**

Responses authorised for publication will be published on the following webpage:

[https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy\\_en#contributions](https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en#contributions)

## INTRODUCTION

On 11 December 2019, the European Commission adopted its [Communication on a European Green Deal](#), which significantly increases the EU's climate action and environmental policy ambitions.

**A number of levers will need to be pulled in order to build this growth strategy, starting with enshrining the climate-neutrality target in law.** On 4 March 2020, the European Commission proposed a European [Climate Law](#) to turn the political commitment of climate-neutrality by 2050 into a legal obligation. This follows the European Parliament's [declaration of a climate emergency](#) on 28 November 2019 and the [European Council conclusions](#) of 12 December 2019, endorsing the objective of achieving a climate-neutral EU by 2050.

**The ongoing COVID-19 outbreak in particular shows the critical need to strengthen the sustainability and resilience of our societies and the ways in which our economies function.** This is necessary to, above all, minimise the risk of similar health emergencies in the future, which are more likely to occur as climate and environmental impacts escalate. In parallel, it will be paramount to ensure the resilience and capacity of our societies and economies to resist and recover from such emergencies. The COVID-19 outbreak underscores some of the subtle links and risks associated with human activity and biodiversity loss. Many of the recent outbreaks (e.g. SARs, MERS, and avian flu) can be linked to the illegal trade in, and consumption of, often endangered wild animal species. Furthermore, experts suggest that degraded habitats coupled with a warming climate may encourage higher risks of disease transmission, as pathogens spread more easily to livestock and humans.<sup>1</sup> Therefore, it is important – now more than ever - to address the multiple and often interacting threats to ecosystems and wildlife to buffer against the risk of future pandemics, as well as preserve and enhance their role as carbon sinks and in climate adaptation.

### **Financing the European Green Deal and increasing the financial resilience of the economy, companies and citizens**

**Above all, the transition to a sustainable economy will entail significant investment efforts across all sectors, meaning that financing frameworks, both public and private, must support this overall policy direction:** reaching the current 2030 climate and energy targets alone would already require additional investments of approximately €260 billion a year by 2030. And as the EU raises its ambition to cut emissions, the need for investment will be even larger than the current estimate. In addition, significant investments in the upskilling and reskilling of the labour force will be necessary to enable a just transition for all. Hence, the scale of the investment needs goes well beyond the capacity of the public sector. Furthermore, if the climate and biodiversity crises are to be successfully addressed and reversed before potentially dangerous tipping points are reached, much of the investment needs to happen in the next 5-10 years. In this context, a more sustainable financial system should also contribute to mitigate existing and future risks to wildlife habitats and biodiversity in general, as well as support the prevention of pandemics -such as the COVID-19 outbreak.

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<sup>1</sup> See for instance “UNEP Frontiers 2016 Report on Emerging Issues of Environment Concern”, UNEP, 2016.

**In this context, the European Green Deal Investment Plan - the Sustainable Europe Investment Plan – announced on 14 January 2020 aims to mobilise public investment and help to unlock private funds through the EU budget** and associated instruments, notably through the InvestEU programme. Combined, the objective is to mobilise at least €1 trillion of sustainability-related investments over the next decade. In addition, for the next financial cycle (2021-2027) the **External Investment Plan (EIP) and the European Fund for Sustainable Development Plus (EFSD+)** will be available for all partner countries with a new External Action Guarantee of up to €60 billion. It is expected to leverage half a trillion Euros worth of sustainable investments. Lastly, the **European Investment Bank (EIB)** published on 14 November 2019 its [new climate strategy and Energy Lending Policy](#), which notably sets out that the EIB Group will align all their financing activities with the goals of the Paris Agreement from the end of 2020. This includes, among other measures, a stop to the financing of fossil fuel energy projects from the end of 2021.

**However, the financial system as a whole is not yet transitioning fast enough.** Substantial progress still needs to be made to ensure that the financial sector genuinely supports businesses on their transition path towards sustainability, as well as further supporting businesses that are already sustainable. It will also mean putting in place the buffers that are necessary to support de-carbonisation pathways across all European Member States, industries that will need greater support, as well as SMEs.

**For all of these reasons, the European Green Deal announced a Renewed Sustainable Finance Strategy.** The renewed strategy will build on the 10 actions put forward in the European Commission’s initial [2018 Action Plan on Financing Sustainable Growth, which](#) laid down the foundations for channelling private capital towards sustainable investments.

**As the EU moves towards climate-neutrality and steps up the fight against environmental degradation, the financial and industrial sectors will have to undergo a large-scale transformation, requiring massive investment.** Progress has already been made, but efforts need to be stepped up. Building on the achievements of the Action Plan on Financing Sustainable Growth, the current context requires a more comprehensive and ambitious strategy. **The Renewed Sustainable Finance Strategy will predominantly focus on three areas:**

- 1. Strengthening the foundations for sustainable investment by creating an enabling framework, with appropriate tools and structures.** Many financial and non-financial companies still focus excessively on short-term financial performance instead of their long-term development and sustainability-related challenges and opportunities.
- 2. Increased opportunities to have a positive impact on sustainability for citizens, financial institutions and corporates.** This second pillar aims at maximising the impact of the frameworks and tools in our arsenal in order to “finance green”.
- 3. Climate and environmental risks will need to be fully managed and integrated into financial institutions and the financial system as a whole,** while ensuring social risks are duly taken into account where relevant. Reducing the exposure to climate and environmental risks will further contribute to “greening finance”.

**Objectives of this consultation and links with other consultation activities**

**The aim of this consultation, available for 14 weeks (until 15 July) is to collect the views and opinions of interested parties in order to inform the development of the**

**renewed strategy.** All citizens, public authorities, including Member States, and private organisations are invited to contribute. Given the diversity of topics under consultation, stakeholders may choose to provide replies to some questions only. Section I (covering questions 1-5) is addressed to all stakeholders, including citizens, while Section II (covering questions 6-102) requires a certain degree of financial and sustainability- related knowledge and is primarily addressed at experts.

**This consultation builds on a number of previous initiatives and reports,** as well as complementing other consultation activities of the Commission, in particular:

- The final report of the [High-Level Expert Group on Sustainable Finance \(2018\)](#);
- The [EU Action Plan on Financing Sustainable Growth \(2018\)](#);
- The communication of the Commission on ‘[The European Green Deal](#)’ (2019);
- The communication of the Commission on ‘[The European Green Deal Investment Plan](#)’ (2020);
- The [reports](#) published by the Technical Expert Group on sustainable finance (TEG) with regard to an EU taxonomy of sustainable activities, an EU Green Bond Standard, methodologies for EU climate benchmarks and disclosures for benchmarks and guidance to improve corporate disclosure of climate-related information.

**This consultation also makes references to past, ongoing and future consultations,** such as the [public consultation](#) and [inception impact assessment](#) on the possible revision of the Non-Financial Reporting Directive (NFRD), the inception impact assessment on the review of the Solvency II Directive or the future consultation on investment protection.

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire on time will be analysed and included in the report summarising the responses.** Should you have a problem completing this questionnaire or if you require particular assistance, please contact [fisma-sf-consultation@ec.europa.eu](mailto:fisma-sf-consultation@ec.europa.eu).

More information:

- [on this consultation](#)
- [on the protection of personal data regime for this consultation](#)

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## SECTION I: QUESTIONS ADDRESSED TO ALL STAKEHOLDERS ON HOW THE FINANCIAL SECTOR AND THE ECONOMY CAN BECOME MORE SUSTAINABLE

**Question 1:** With the increased ambition of the European Green Deal and the urgency with which we need to act to tackle the climate and environmental-related challenges, do you think that (please select one of the following):

- Major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector.
- Incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.
- No further policy action is needed for the time being.

**Question 2:** Do you know with sufficient confidence if some of your pension, life insurance premium or any other personal savings are invested in sustainable financial assets?

- Yes/No/Do not know.
- If yes, do you consider that you have had sufficient access to information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets? Please explain and specify whether you searched for the information yourself or whether the information was made available to you [BOX 2000 characters].
- If no, would you like to be offered more information with regard to the integration of sustainability criteria and options to invest in sustainable financial assets and divest from non-sustainable assets?
  - Yes/No/Do not know
  - If necessary, please explain your answer [BOX 2000 characters].

**Question 3:** When looking for investment opportunities, would you like to be systematically offered sustainable investment products as a default option by your financial adviser, provided the product suits your other needs?

- Yes/No/do not know

**Question 4:** Would you consider it useful if corporates and financial institutions were required to communicate if and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement?

- Yes, corporates;
- Yes, financial institutions;
- Yes, both;
- If no, what other steps should be taken instead to accelerate the adoption by corporates and financial sector firms of business targets, strategies and practices that aim to align their emissions and activities with the goals of the Paris Agreement? [BOX, 2000 characters]
- Do not know.

**Question 5:** One of the objectives of the European Commission's 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects. Do you believe the EU should also take further action to:

- Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models: scale from 1 (strongly disagree) to 5 (strongly agree). 4
- Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law: scale from 1 (strongly disagree) to 5 (strongly agree). 4
- In case you agree or strongly agree with one or both options [4-5]: what should the EU do to reach this objective?[BOX, 2000 characters]

Resolving climate change will be the dominant challenge of the coming years. We expect governments and regulators will have a significant part to play. The transition during the 2020s will be matched by a major shift in global political, legal and regulatory frameworks as these respond to environmental and also social challenges.

Asset management firms express more and more on ESG issues which might harm the investments made on behalf of our clients, as well as people and the environment, carefully balancing divestment and engagement strategies on more harmful sectors, and more actively promoting investments in green but also transitioning sectors.

We are supportive of the enhanced transparency requirements implemented at the EU level through new regulations applicable across a large range of financial products. Some of our members also believe that having clearer rules on sectors, identified as at high sustainability risk, would ensure a same level of information and where possible more consistent approaches and understanding across the industry, benefiting end clients as well.

Some of our members think that the following actions could be recommended:

- Investor engagement has proven to be one of the most effective means to foster better corporate environmental, social and governance practices, but the level of investor engagement varies significantly from country to country. The EU can level the playing field to best practice through the revision of the SRDII, and potential other regulations.
- focus on the concrete needs for industries presenting harmful activities in terms of transformation - create a framework to incentivise and accompany them towards the change (need to know where to go; what is not acceptable, etc.)
- Need to incentivise the transition and not only the pure green players.

## SECTION II: QUESTIONS TARGETED AT EXPERTS

*The following section asks further technical and strategic questions on the future of sustainable finance, for which a certain degree of financial or sustainability-related expertise may be useful. This section is therefore primarily addressed at experts.*

**Question 6:** What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years?

3 main challenges:

- Insufficient ESG data: Audited, comparable and reliable ESG data is currently largely insufficient. The timing remains highly problematic as even if NFRD goes swiftly, disclosures stemming from it will not be available before two-or three-years' time. Meanwhile, financial institutions need to provide first disclosures in line with the EU Taxonomy as of January 2022 while first disclosures stemming from SFDR are due as

of March 2021 already. The period in between will be quite problematic as it is highly unlikely that needed ESG would become widely available in the meantime. This situation would further exacerbate over-reliance on the third-party data providers. Not only the quality and reliability of such data is often questioned, industry participants struggle to afford it. This would result in an unlevel-playing field.

- Beyond the un-optimal sequencing of many European legislative proposals, the creation of a too strict framework would be damageable, which may discourage investors due to lower risk / return due to the direct and indirect costs of complying with the new regulations for instance, if they are too restrictive in terms of what is included in the taxonomy for instance.
- Products' ESG-consistency/substance: a number of on-going regulatory developments at EU and local level are aimed at addressing the ESG substance challenge, and it is important to ensure consistency in such developments.

Main opportunities:

- There is a clear demand from clients for an increased incorporation of sustainability in investments, translated into more significant inflows in products which address these issues, including green bonds. This change in mindset is a great opportunity to press for change the financial industry.
- The emergence of new innovative tools to help address clients' appetite and direct investments to fund the transition to a low-carbon world, such as transition bonds is a real opportunity too.

- [BOX, 2000 characters].

**Question 7:** Overall, can you identify specific obstacles in current EU policies and regulations that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making?

- Please provide a maximum of three examples [BOX max. 2000 characters].

The lack of regulation of sustainability data providers (transparency, governance, justification of data fees, reliability, standardisation of content, emerging oligopoly, legal liability...) is a real challenge. This globally impacts the availability of data. They should also be regulated through a new, stand-alone, level 1 piece of regulation dedicated to data-providers. Final responsibility given by EC to asset managers should be shared with data providers as asset managers are sometimes very dependent on data providers.

The absence of an EU SRI label for sustainable financial products and the development of national labels could tend to complexify the sustainable finance market, which is not easy to understand for the final client and is costly for asset managers and ultimately for the end clients.

**Question 8:** The transition towards a climate neutral economy might have socio- economic impacts, arising either from economic restructuring related to industrial decarbonisation, because of increased climate change-related effects, or a combination thereof. For instance, persons in vulnerable situations or at risk of social exclusion and in need of access to essential services including water, sanitation, energy or transport, may be particularly affected, as well as workers in sectors that are particularly affected by the decarbonisation agenda. How could the EU ensure that the financial tools developed to increase sustainable investment flows and manage climate and environmental risks have, to the extent possible,

no or limited negative socio-economic impacts?

- [BOX, 2000 characters]

Environmental transition has serious implications for the economy and society. We agree that the principles of “Just Transition” need to be ensured when defining the next steps of the EU sustainable finance strategy. A first crucial step will be for governments, and for the EU, to take into account those social considerations when defining their NDCs. Then, there is a need for more social impact analysis to be integrated into the various set of climate scenarios available in the market. We would like these scenarios - which often serve as a basis for governments and companies to develop a consistent climate pathway - to push the boundaries to include social impacts and more broadly Sustainable Transition.

The “Do No Significant Harm” principle in the EU Taxonomy partly shows the shape of potential solutions. It should be possible to consider solutions in terms of prevention and mitigation (rehabilitation, etc.) of risks provoked and support policies for populations and ecosystems affected. These elements should be integrated in the development phase of financial tools and solutions.

**Question 9:** As a corporate or a financial institution, how important is it for you that policy-makers create a predictable and well-communicated policy framework that provides a clear EU-wide trajectory on greenhouse gas emission reductions, based on the climate objectives set out in the European Green Deal, including policy signals on the appropriate pace of phasing out certain assets that are likely to be stranded in the future?

- Please express your view by using a scale from 1 (not important at all) to 5 (very important). **4**

For scores of 4 to 5, what are, in your view, the mechanisms necessary to be put in place by policy-makers to best give the right signals to you as a corporate or a financial institution? [BOX, 2000 characters]

Financial institutions in the investment management industry are striving to develop and implement best market practices in the integration of ESG considerations in their business, actively contributing in the rule-making process with their expertise. They are also trying to understand how the different pieces of the regulatory puzzle fit together, including SFDR which, in the meantime, has already been amended by the EU Taxonomy Regulation. Compliance with both of these regulations will be very challenging especially due to the insufficient availability of comparable, reliable, audited and public ESG data (inter-connection and framework relationship in sustainable finance regulation is very important).

The sustainable finance policy framework should also be based on the proportionality and inclusion principles to avoid any disbalance in regulatory burden among different actors. As a result, a prior analysis of such burden and proper prior impact assessment of every regulation initiative as well as its effects is highly important to clearly understand what behaviour will be stimulated by the regulation and what effects this can bring. There is not only the need for a well-communicated policy, but also for a smart policy

This is further exacerbated by very challenging or even impossible timelines. Preparation for the compliance with SFDR is hampered given that there won't be clarity on the level 2 measures, key to understand how to comply with the new rules, before the beginning of 2021, with final acts being published probably around mid-2021. Meanwhile, most of the SFDR provisions will apply

as of March 2021.

It is of great importance to take stock of what has been done so far and analyse how all fit together while reflecting on the renewed sustainable finance strategy. The renewed strategy should put the different pieces of the puzzle together and make the new rules work in practice, in a well sequenced, consistent and coordinated manner.

**Question 10:** Should institutional investors and credit institutions be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?

- Yes, institutional investors
- Yes, credit institutions
- Yes, both
- **No**
- Do not know

**Question 11:** Corporates, investors, and financial institutions are becoming increasingly aware of the correlation between biodiversity loss and climate change and the negative impacts of biodiversity loss in particular on corporates who are dependent on ecosystem services, such as in sectors like agriculture, extractives, fisheries, forestry and construction. The importance of biodiversity and ecosystem services is already acknowledged in the EU Taxonomy. However, in light of the growing negative impact of biodiversity loss on companies' profitability and long-term prospects,<sup>2</sup> as well as its strong connection with climate change, do you think the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss?

- **Yes/No/Do not know**
- If yes, please specify potential actions the EU could take. [BOX max. 2000 characters]

Yes, but it should be acknowledged that biodiversity is still an immature theme, and difficult to report on. As such, it is not the right timing to regulate it.

Biodiversity and climate change are intrinsically connected and therefore need to be addressed simultaneously to managed related risks and challenges. However, climate change is not the main reason of biodiversity loss, the correlation between the two is relatively limited currently. Climate change and biodiversity issues are inter-related first of all by the fact that both are highly accelerated by human activities. Consequently, biodiversity should be treated on the same level as climate change issue and not as a supplement to climate change problem. It is a humanity-produced issue in its own full right.

In addition, we are conscious that biodiversity is still perceived as complex and that although awareness is increasing, research efforts needs to be reinforced. We think that the EU could play a role in ensuring that those risks are better taken into account, which could be done using the following levers. The EU has a key role to play

- while facilitating dialogue between issuers and investors: **clear lack of data and analysis methodologies are still work in progress in this field.**
- To support initiatives by making the reporting on biodiversity-related metrics and information mandatory and standardised for issuers, as part of the NFRD review.

Biodiversity needs to be a key dimension in the sustainability standard to be developed at the EU level as part of the NFRD revision.

- To support and finance research on biodiversity through dedicated grant program for instance, in order to help identifying tools and solutions to address those.
- To foster international cooperation and contributing to reach an International Accord on biodiversity similar to the Climate Paris Agreement through the COP for Biodiversity.

**Question 12:** In your opinion, how can the Commission best ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level in order to cover the private and public funding side, measure financial flows towards sustainable investments and gauge the EU's progress towards its commitments under the European Green Deal and Green Deal Investment Plan?

- [BOX, 2000 characters]

It could be part of the role of the Platform on Sustainable Finance. In addition, EU should engage at the international level and set standards that are recognised globally.

It is also important to stress the importance of the sustainable finance agenda being governed in a manner that is characterized by a high degree of predictability and transparency for all stakeholders involved (predictable timing of revisions, involvement of stakeholders, public hearings and enough time to respond, transparency in technical working groups etc.).

**Question 13:** In your opinion, which, if any, further actions would you like to see at international, EU, or Member State level to enable the financing of the sustainability transition? Please identify actions aside from the areas for future work identified in the targeted questions below (remainder of Section II), as well as the existing actions implemented as part of the European Commission's 2018 Action Plan on Financing Sustainable Growth.

- [BOX, 2000 characters]

It is important to stress the importance of the sustainable finance agenda being governed in a manner that is characterized by a high degree of predictability and transparency for all stakeholders involved (predictable timing of revisions, involvement of stakeholders, public hearings and enough time to respond, transparency in technical working groups etc.).

We would like to highlight the following actions:

- Transit actions: support mechanisms in transition for instance under condition of engaging in new more sustainable activities (transition is a process, accompany it)
- Consideration of sustainability issues related to new "green" solutions (not all today's green activities are actually "green" in absolute; even if they are in comparison to traditional activities). Need to anticipate and treat / long-term perspective of green solutions (For instance, many solar power producers do not consider solar panels recycling solutions today as with the duration of life of the panels being around 20 years, they qualify this question to be too long-term. This is one of the multiple examples of short-term orientation of businesses, which normally bring green solutions aiming to treat the long-term climate question).
- Enhancement of sustainable digital finance and FinTech sustainable innovation solutions

## **1. STRENGTHENING THE FOUNDATIONS FOR SUSTAINABLE FINANCE**

In order to enable the scale-up of sustainable investments, it is crucial to have sufficient and reliable information from financial and non-financial companies on their climate, environmental and social risks and impacts. To this end, companies also need to consider long-term horizons. Similarly, investors and companies need access to reliable climate-

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<sup>2</sup> See for instance “The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business,” WWF, 2019

related and environmental data and information on social risks, in order to make sound business and investment decisions. Labelling tools, among other measures, can provide clarity and confidence to investors and issuers, which contributes to increasing sustainable investments. In this context, the full deployment of innovative digital solutions requires data to be available in open access and in standardised formats.

### 1.1 Company reporting and transparency

In its Communication on the [European Green Deal](#), the Commission recognised the need to improve the disclosure of non-financial information by corporates and financial institutions. To that end, the Commission committed to reviewing the [Non-Financial Reporting Directive](#) (NFRD) in 2020, as part of its strategy to strengthen the foundations for sustainable investment. A [public consultation](#) is ongoing for that purpose.

The [political agreement](#) on the Regulation on establishing a framework to facilitate sustainable investment ('Taxonomy Regulation') places **complementary reporting requirements on the companies that fall under the scope of the NFRD**.

In addition to the production of relevant and comparable data, it may be useful to ensure open and centralised access not only to company reporting under the NFRD, but also to relevant company information on other available ESG metrics and data points (please also see the dedicated section on sustainability research and ratings 1.3). To this end, a **common database** would ease transparency and comparability, while avoiding duplication of data collection efforts. The Commission is developing a common European data space in order to create a [single market for data](#) by connecting existing databases through digital means. Since 2017, DG FISMA has been assessing the prospects of using Distributed Ledger Technologies (including blockchain) to federate and provide a single point of access to information relevant to investors in European listed companies ([European Financial Transparency Gateway](#) - EFTG).

**Question 14:** In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including data reported under the NFRD and other relevant ESG data?

- **Yes**/No/Do not know.
- If yes, please explain how it should be structured and what type of ESG information should feature therein. [BOX, 2000 characters]

We strongly support such initiative. We believe that a public EU central database has a potential to alleviate to some extent the challenges to be faced by the financial market participants and investors in the short-term as well as in the long-term. We are convinced that beyond regaining control over ESG data would secure the supply and accessibility of this data, which today depends largely on non-European players. This could be done with a central repository gathering all data reported by companies, and we support newly launched initiatives related to such ESG open data repository.

Governance of such database is key to avoid the formation of any commercial monopoly or oligopoly for the provision of ESG data. The database will have to be accessible to all and operate on the basis of an open-data model. It could be provided by a public body directly, through a public-private partnership or by a not-for-profit grouping of market participants, under the supervision of a European public body.

In terms of data, we believe the aim should be to provide free "raw" ESG data. It is important

such data is provided in a machine-readable format.

For companies that are or will be subject to EU rules requiring ESG disclosures, providing such data should be mandatory. However, companies outside the scope of such EU requirements, given that we are strongly in favour of enlarging the scope as much as possible, should be allowed to include such data on a voluntary basis.

We recommend that such database includes not only regulated information, and also allows for voluntary disclosures by companies outside the scope of EU legal requirements. It would be also helpful for accessing ESG information before application of the reviewed NFRD.

To conclude, we recommend the existing of a common platform where all the corporates should report their ESG raw data with a free access from all the players of the civil society.

**Question 15:** According to your own understanding and assessment, does your company currently carry out economic activities that could substantially contribute to the environmental objectives defined in the Taxonomy Regulation?<sup>3</sup>

- Yes/No/**Do not know.**
- If yes, once the EU Taxonomy is established (end-2020 for climate change mitigation and adaptation),<sup>4</sup> how likely is it that you would use the taxonomy for your business decisions (such as adapting the scope and focus of your activities in order to be aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). If necessary, please specify [BOX, 2000 characters].

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<sup>3</sup> The six environmental objectives are climate change mitigation and adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems.

<sup>4</sup> Assuming that for climate change mitigation and adaptation, it would be based on the [recommendations of the TEG](#) for the EU Taxonomy.

## 1.2 Accounting standards and rules

**Financial accounting standards and rules can have a direct impact on the way in which investment decisions are made** since they form the basis of assessments that are carried out to evaluate the financial position and performance of real economy and financial sector companies. **In this context, there is an ongoing debate around whether existing financial accounting standards might prove challenging for sustainable and long-term investments.** In particular, some experts question whether existing impairment and depreciation rules fully price in the potential future loss in value of companies that today extract, distribute, or rely heavily on fossil fuels, due to a potential future stranding of their assets.

Recognising the importance of ensuring that accounting standards do not discourage sustainable and long-term investments, as part of the 2018 Action Plan on Financing Sustainable Growth, the Commission already requested the European Financial Reporting Advisory Group (EFRAG) to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. EFRAG issued its [advice to the Commission](#) on 30 January 2020. Following this advice, the [Commission has requested the IASB](#) to consider the re- introduction of recycling through the profit or loss statement of profits or losses realised upon the disposal of equity instruments measured at fair value through other comprehensive income (FVOCI).

**Question 16:** Do you see any further areas in existing financial accounting rules (based on the IFRS framework) which may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks?

- **Yes**/no/do not know.
- If yes, what is in your view the most important area (please provide details, if necessary):
  - Impairment and depreciation rules. [BOX, 2000 characters]
  - Provision rules. [BOX, 2000 characters]
  - Contingent liabilities. [BOX, 2000 characters]
  - **Other**, please specify. [BOX, 2000 characters]

We would like to highlight the unequal treatment of direct and indirect investments. The accounting rules are based mostly on financial information (principle of materiality) and inform investment decision-making on the basis of such information only. See our comment on materiality for NFRD revision consultation. We think that there is the need to include in the decision-making framework defended by the accounting rules also ESG information.

## 1.3 Sustainability research and ratings

A variety of sustainability-related assessment tools (ratings, research, scenario analysis, screening lists, carbon data, ESG benchmarks, etc.) are offered by specialised agencies that analyse individual risks and by traditional providers, such as rating agencies and data providers. In the autumn of 2019, the Commission launched a study on the market structure, providers and their role as intermediaries between companies and investors. The study will also explore possible measures to manage conflicts of interest and enhance transparency in the market for sustainability assessment tools. The results are due in the autumn of 2020. To complement this work, the Commission would like to gather further evidence through this consultation.

**Question 17:** Do you have concerns on the level of concentration in the market for ESG

ratings and data?

- Please express your view by using a scale of 1 (not concerned at all) to 5 (very concerned). **5**
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

Our concern is both on the level of concentration (leading to de facto oligopolies which set prices and liability limitations), and on the fact that ESG ratings are not at all yet as reliable as credit ratings (see OECD study on this topic). In addition, the continued consolidation of the sector results in a US ownership for most rating agencies which is creating bias in terms of data available and analytical framework.

Given their establishment and market penetration in other areas as well (e.g. benchmarks or ratings), they become a default reference and sometimes an inevitable solution. It prevents asset managers to create value while analyzing companies.

They also have the power to establish high prices, given their oligopoly.

They have the power to indirectly establish the “opinion” of different companies – with the consequences that it can bring about, particularly in the context of the new regulatory requirements. Furthermore, some are quite opaque and do not provide the necessary information for users to assess their ratings/information.

There are conflicts of interest involved e.g. same entity providing second opinion and at the same time, rating the company; or constructing benchmarks.

They are mostly all non-European and, indirectly and inevitably, pushing for their approach to sustainable finance that of itself does not necessarily match the European view. To us it is not only a question of the level of concentration but also a matter of quality of ESG data. Furthermore, there is a need to enhance competition and diversity of actors in the domain to be able to provide challenging environment for data quality verification and critical assessment of ESG issues.

**Question 18:** How would you rate the comparability, quality and reliability of ESG **data** from sustainability providers currently available in the market?

- Please express your view by using a scale of 1 (very poor) to 5 (very good). **3**
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

In terms of challenges, the following points can be noted:

- Coverage and quality are heterogeneous with a satisfactory score for large capitalisations and companies from developed countries but data is lacking in other areas. Cultural specificities also generate a bias depending on the provider nationality and ESG philosophy which does not help when dealing with raw data.
- Methodologies are still being developed, complex (e.g. climate / alignment) and sometimes opaque. ESG data relies on these methodologies, and is therefore subject to

changes, and to challenge, and lacks comparability. This makes it more difficult to integrate in the investment decision than a traditional financial information, based on well-know and shared standards, as the information is not quantified and not always comparable. And as new approaches are continuously being developed, we still learn about the subject and a combination of different sources of information allows to bring some potentially interesting insights for decision-making.

- Lack and cost of ESG data – although initiatives to encourage issuers to report in a more homogeneous, transparent, and usable manner are multiplying (TCFD on climate data, Workforce Disclosure Initiative on social data, etc.), ESG data remains heterogeneous and therefore complicated to use when investing and reporting. We encourage initiatives to reinforce the availability of ESG information at issuer level, but also to make it available in an easy and less costly manner.
- We welcome recent initiatives from some players to make part of their data available broadly, but clearer guidance on methodologies will be essential in order to move to the next step of this journey (e.g. clear definition of what a company should report in its employee turnover figure). We believe the definition of an EU standard for non-financial information, following the NFRD revision, will be a key step in this perspective.

**Question 19:** How would you rate the quality and relevance of ESG **research** material currently available in the market?

- Please express your view by using a scale of 1 (very poor) to 5 (very good). **3**
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

As said before, the market is quite heterogeneous, with regards to quality and coverage. But diversification makes also the offer more interesting, giving more added value to the ecosystem. It is up to the users to select the providers they consider best. With concentration would come homogenization.

At the moment, we face two fundamental hurdles:

1. Underlying data – if the companies do not provide the right information, for the entirety of their activities and operation, and on the right format, we end up using estimations, which might help to apply them at portfolio-level, but those lack meaningfulness. Further, they might entail unintended consequences such as penalising those companies that are providing complete and proper information.
2. The lack of harmonisation around key indicators and methodologies for market participants and investors to aggregate and compare (or even calculate their own performances) e.g. scope 3.
3. However, we remain conscious of the importance to keep the R&D going on ESG KPIs as sustainability topics are evolving constantly. The current diversity available within the ESG research field is key for analysts.

**Question 20:** How would you assess the quality and relevance of ESG **ratings** for your investment decisions, both ratings of individual Environmental, Social or Governance factors and aggregated ones?

- Individual: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good). 2
- Aggregated: Please express your view by using a scale of 1 (very poor quality and relevance) to 5 (very good). 2
- If necessary, please explain the reasons for your answer. [BOX, 2000 characters]

Some of our members perceive ESG ratings offered by many providers as superficial compared with the need for an in-depth company specific ESG analysis performed by the asset managers. Focus tends to be on the sector and geography specific risks, while lacking company specific risks and more profound understanding of what the business does and how it is run. Some members also complain that while the rating providers mention insufficient disclosure by companies and issuers as a key impediment, their methodologies tend to reward companies that disclose more, even if their ESG practices are weak. In the respect, they would like to see a more thorough research. Inclusion of strategy on ESG items, predictions based on ESG momentum and in general more metrics that look at trajectory/trend/strategy could meaningfully assist in better development ratings.

At the moment, ESG rating agencies, as well as proprietary scoring methodologies developed, do not include the same factor and information in the E, S and G pillar. We would welcome increased consistency at a EU but also at a global level, even if it is important to distinguish basic ESG metrics that could be at some point standardised (in a “DNSH” manner) and fundamental ESG alpha search analysis, which cannot necessarily be standardised and this is fully acceptable.

While harmonization is important for mature topics, such as GHG emissions, it is also important to keep a space for R&D on less mature topics such as biodiversity or societal impacts.

Another risk we identify in the current market of ESG data is the emergence of ESG rating consensus: providers developing tools to create ESG consensus based on ESG data providers ratings are emerging while the underlying data have very different approaches and methodologies. This market should probably be regulated as well as there is a high risk that investors without ESG expertise integrate ESG based on such tools without any knowledge on the ESG performance of their assets.

**Question 21:** In your opinion, should the EU take action in this area?

- Yes/No/Do not know.
- If yes, please explain why and what kind of action you consider would address the identified problems. In particular, do you think the EU should consider regulatory intervention? [BOX, 2000 characters]

We would welcome more transparency on the methodologies used and on how data is obtained and verified. To improve the quality of research and ratings and avoid factually incorrect analyses and misleading/incorrect conclusions, we would also advice that rating and research providers increase dialogue with the rated companies. Hence, we would also recommend this sector to be regulated, as credit agencies, to avoid conflicts of interest and abuse of market practices.

**1.4 Definitions, standards and labels for sustainable financial assets and financial products**

The market for sustainable financial assets (loans, bonds, funds, etc.) is composed of a wide variety of products, offered under various denominations like ‘green’, ‘SDG’, ‘transition’, ‘ESG’, ‘ethical’, ‘impact’, ‘sustainability-linked’, etc. While a variety of products allows for different approaches that can meet the specific needs and wishes of those investing or lending, it can be difficult for clients, in particular retail investors, to understand the different degrees of climate, environmental and social ambition and compare the specificities of each product. **Clarity on these definitions through standards and labels can help to protect the integrity of and trust in the market for sustainable financial products, enabling easier access for investors, companies, and savers.**

As set out in the 2018 Action Plan on Financing Sustainable Growth, the Commission services started working on: (i) developing possible technical criteria for the [EU Ecolabel scheme for retail funds, savings and deposits](#), and (ii) establishing an EU Green Bond Standard (EU GBS). The Commission also committed to specifying the content of the prospectus for green bond issuances to provide potential investors with additional information, within the framework of the Prospectus Regulation.

## *EU Green Bond Standard*

The Technical Expert Group on Sustainable Finance (TEG) put forward a report in June 2019 with 10 recommendations for how to create an EU Green Bond Standard (EU GBS). This was completed with a usability guide in March 2020, as well as with an updated proposal for the standard (see Annex 1).

The TEG recommends the creation of an official voluntary EU GBS building on the EU Taxonomy. Such an EU Green Bond Standard could finance both physical assets and financial assets (including through covered bonds and asset-backed securities), capital expenditure and selected operating expenditure, as well as specific expenditure for sovereigns and sub-sovereigns. The standard should in the TEG's view exist alongside existing market standards.

The overall aim of the EU GBS is to address several barriers in the current market, including reducing uncertainty on what is green by linking it with the EU Taxonomy, standardising costly and complex verification and reporting processes, and having an official standard to which certain (financial) incentives may be attached. The TEG has recommended that oversight and regulatory supervision of external review providers eventually be conducted via a centralised system organised by ESMA. However, as such a potential ESMA-led supervision would require legislation and therefore take time, the TEG suggests the set-up of a market-based, voluntary interim registration process for verifiers (the Scheme) of EU Green Bonds for a transition period of up to three years.

Below you will find four questions in relation to the EU GBS. **A separate dedicated consultation with regards to a Commission initiative for an EU Green Bond Standard will be carried out in the future.** Please note that questions relating to green bond issuances by public authorities are covered in section 2.7 and questions on additional incentives can be found in section 2.6.

**Question 22:** The TEG has recommended that verifiers of EU Green Bonds (green bonds using the EU GBS) should be subject to an accreditation or authorisation and supervision regime. Do you agree that verifiers of EU Green Bonds should be subject to some form of accreditation or authorisation and supervision ?

- Yes, at European level
- Yes, at a national level
- No
- Do not know
- If necessary, please explain the reasons for your answer [BOX 2000 characters]

While being supportive of clear and comprehensive criteria for the external verification of the green bonds, we do not see merits in creating a complicated accreditation regime. In many cases it is already the market practice to seek an external assurance by auditors or ESG rating agencies. Creation of a complex mandatory accreditation regime would reduce flexibility, increase the timeline and result in an increase of cost related to the green bonds issuance.

We believe such authorisation and supervision process would be a good way to tackle any inconsistency (“greenwashing”) concerns. It should however not increase costs and the framework should be developed so as not to slow down the development of this market, which is key to support the transition to a 1.5°C world.

We believe that entities that will be providing investors with certifications of green bond compliance with the EU GBS should be supervised and regularly audited, notably in their role of ensuring that 100% of the proceeds will be allocated to activities aligned with the EU taxonomy.

The aim is to ensure the integrity and credibility of the standard.

**Question 23:** Should any action the Commission takes on verifiers of EU Green Bonds be linked to any potential future action to regulate the market for third-party service providers on sustainability data, ratings and research?

- **Yes** / No / Do not know
- If necessary, please specify the reasons for your answer [BOX 2000 characters]

Sustainability data should be verified and audited such as financial data to ensure reliability and comparability – the NFRD review will provide an excellent opportunity to clarify such need.

As in many cases today the two functions are performed by the same agents – ESG research agencies. Many of the agencies (if not all) offer a Third Party opinion service for green and sustainability bonds; a clear normalisation of each of the sustainability-related activities of these providers is highly preferable to offer assurance to the market on the quality of data and its assessment by the agencies. However, note that not all third party verifiers are ESG research agencies; so, any future policy action should be adapted to its complete target audience (whether agency or not).

**Question 24:** The EU GBS as recommended by the TEG is intended for any type of issuer: listed or non-listed, public or private, European or international. Do you envisage any issues for non-European issuers to follow the proposed standard by the TEG?

- **Yes** / No / Do not know
- If necessary, please specify the reasons for your answer [BOX 2000 characters]

The cost may be an issue, in particular for small issuers in those geographies, as the EU for instance offers financial support only for EU issuers. We also believe that the criteria of the EU Green Bonds standards may in certain case not work for projects located in other geographies where the size and nature of the challenges are different or where a different taxonomy would be defined. While keeping similar target and references, it might make sense to consider different timeline, for instance in the Chinese market, and acceptance for international taxonomy equivalences.

We also note that international Green Bond standards like CBI standards, global ICMA GB Principles or the coming ISO international standards on green debt products would potentially be preferred by some issuers in this case.

A link between the EU GB standard and the international alternatives should probably be made in order to guide issuers' choices and to tend towards international consensus on the key principles of green bonds assurance.

To conclude, to allow for a wider adoption of the EU GBS, the EU Platform on Sustainable Finance could work on correspondence tables between the eligibility thresholds of the EU taxonomy and non-EU or international certification schemes such as LEED or BREEAM for green buildings, or US vs EU CO2 values for cars, etc.

## *Prospectus and green bonds*

**Question 25:** In those cases where a prospectus has to be published, do you believe that requiring the disclosure of specific information on green bonds in the prospectus, which is a single binding document, would improve the consistency and comparability of information for such instruments and help fight greenwashing?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree) **4**
- If necessary, please specify the reasons for your answer [BOX, 2000 characters]

Yes we believe that having information on ESG approaches and methodologies in the prospectus is critical to ensure proper information of clients and help harmonize approaches. This should apply for green bonds as well. Clear guidance in that perspective is however needed for the comparability to be effective, and to avoid too significant discrepancies between the approaches used.

One of the differences we noticed between EU and US issuers is that most of the US issuers provide information exclusively through the prospectus, while most of the EU issuers provide additional information through separated Green bond dedicated presentation. Having all the needed information in each prospectus would encourage common approach and the development of green bond related binding information. Clear guidance needed to have in each prospectus the necessary information showing alignment with the EU GBS.

On the other hand, inclusion of further information in the prospectus is linked to the increased liability for issuers which could discourage green bonds issuances and reduce the overall market. Standardization is always welcome but too stringent of a process could deter some issuers from issuing green bonds due to additional cost/effort and legal requirements to meet the new green bond standard.

**Question 26:** In those cases where a prospectus has to be published, to what extent do you agree with the following statement:

*“Issuers that adopt the EU GBS should include a link to that standard in the prospectus instead of being subject to specific disclosure requirements on green bonds in the prospectus”*

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree) **3**
- If necessary, please specify the reasons for your answer [BOX]

We would favour a proportionate approach to requiring green bonds disclosures in the prospectus, as we understand it provides for more flexibility. Nevertheless, if it were to come with the same liability obligations as a stand-alone green bond prospectus, issuers might still be discouraged to issue. It could be worth to consider simply to formalize the reference to a green bond framework.

## *Other standards and labels*

Already now, the Disclosure Regulation defines two categories of sustainable investment products: those promoting environmental or social characteristics and those with environmental or social objectives, the latter being defined as ‘sustainable investments’. Both types of products have to disclose their use of the EU Taxonomy, for the environmental portion of the product.

**Question 27:** Do you currently market financial products that promote environmental characteristics or have environmental objectives?

- Yes/No/**Do not know.**

- If yes, once the EU Taxonomy is established,<sup>5</sup> how likely is it that you would use the EU Taxonomy in your investment decisions (i.e. invest more in underlying assets that are partially or fully aligned with the EU Taxonomy)? Please use a scale of 1 (not likely at all) to 5 (very likely). Please specify if necessary [box, 2000 characters]

**Question 28:** In its final report, the High-Level Expert Group on Sustainable Finance recommended to establish a minimum standard for sustainably denominated investment funds (commonly referred to as ESG or SRI funds, despite having diverse methodologies), aimed at retail investors. What actions would you consider necessary to standardise investment funds that have broader sustainability denominations?

- No regulatory intervention is needed.
- The Commission or the ESAs should issue guidance on minimum standards.
- Regulatory intervention is needed to enshrine minimum standards in law.
- Regulatory intervention is needed to create a label.

**Question 29:** Should the EU establish a label for investment funds (e.g. ESG funds or green funds aimed at professional investors)?

- Yes/No/Do not know.
  - If necessary, please explain your answer [BOX, 2000 characters]

No, but we can observe with our French experience (Greenfin or SRI label) that there is some appetite from professional investors for a Label, either Green or ESG one. The most important would be to have the same label for retail and (available also for) professional investors. It is also really important to be clear on the purpose of a label in terms of what level of practices it serves to promote (minimum requirements or best practices or other).

We would also welcome an EU SRI minimum framework for labels that would simplify the current multiplicity of national labels and foster mutual recognition.

- If yes, regarding green funds aimed at professional investors, should this be in the context of the EU Ecolabel?

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<sup>5</sup> Assuming that for climate change mitigation and adaptation, it would be based on the recommendations of the TEG for the EU taxonomy.

- Yes/No/Do not know
- If necessary, please explain your answer [BOX, 2000 characters]

A European Label shouldn't be limited to the EU Ecolabel. We are in favour of an ESG European framework for recognizing labels; ie. Minimum standards to be respected, while leaving national preferences to co-exist. On top of that, we are in favour of an ESG European label/framework that would cover a wide range of ESG approaches: ESG, stewardship, impact... (ie. Potentially applicable to all funds that would comply with Article 8 or Article 9 of SFRD). It should ensure that there is plenty of room for innovation and for the inclusion of different ESG approaches while ensuring the contribution of the ESG approach towards a more sustainable economy.

**Question 30:** The market has recently seen the development of sustainability-linked bonds and loans, whose interest rates or returns are dependent on the company meeting pre-determined sustainability targets. This approach is different from regular green bonds, which have a green use-of-proceeds approach. Should the EU develop standards for these types of sustainability-linked bonds or loans?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree). 2
- If necessary, please explain. [BOX, 2000 characters]

This format is just nascent in the public bond space (no other example than Enel so far) and ICMA has just released the key principles for the SLB format. We believe that it is too early for the EU to intervene with a regulation on this market. We would rather recommend to the EC to monitor these developments, and just like for the EU GBS, possibly set a standard based on identified best practices.

Transition towards a more sustainable production system requires more flexible and different sustainable goals to be set. In terms of EU GBS, we see merit in exploring whether use-of-proceeds and sustainability-linked loans could be pooled together and thereby allowing both elements to be in the EU GBS. This would be of benefit to especially smaller issuers, as a system with multiple standards would divide liquidity into different bonds and make it difficult for smaller issuers to use the standards.

**Question 31:** Should such a potential standard for target-setting sustainability-linked bonds or loans make use of the EU Taxonomy as one of the key performance indicators?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree). 4
- If necessary, please explain. [BOX, 2000 characters]

We don't want to create multiple definitions of sustainability. As such, we strongly favour the development of other taxonomies, like a social one. Regarding the current development of the Green Taxonomy, if it is to be used as one of the key performance indicators, we believe the Taxonomy needs to be refined, in particular as its scope needs to be reviewed in order to better cover enabling activities which will be critical to support the transition of most companies, as well as companies which are engaged in a transition strategy, with a clear and measurable transition plan. For instance, certain sectors such as transportation could be included based on ~~strict criteria and commitments.~~

What must be described according to us is how these targets participate in the achievement of broader environmental and social objectives such as the EU environmental objectives. (It might

be too soon to precisely define rules for SLBs. It's a growing but new market which is still in development. EU guidance should remain high level in order to avoid too strict standards limiting the innovation capacity of the market.)

Last, beyond management KPIs, criteria of these bonds reinforce alignment of stakeholder interest.

**Question 32:** Several initiatives are currently ongoing in relation to energy-efficient mortgages<sup>6</sup> and green loans more broadly. Should the EU develop standards or labels for these types of products?

- Yes/No/Do not know.
- If yes, please select all that apply:
  - a broad standard or label for sustainable mortgages and loans (including social and environmental considerations);
  - a standard or label for green (environmental and climate) mortgages and loans;
  - a narrow standard or label only for energy-efficient mortgages and loans for the renovation of a residential immovable property;
  - other: please specify what type of standard or label on sustainability in the loan market you would like to see [BOX, 2000 characters]

**Question 33:** The [Climate Benchmarks Regulation](#) creates two types of EU climate benchmarks - 'EU Climate Transition' and 'EU Paris-aligned' - aimed at investors with climate-conscious investment strategies. The regulation also requires the Commission to assess the feasibility of a broader 'ESG benchmark'. Should the EU take action to create an ESG benchmark?

- Yes/No/Do not know.
- If no, please explain the reasons for your answer, if necessary. [BOX, 2000 characters]
- If yes, please explain what the key elements of such a benchmark should be. [BOX max. 2000 characters]

No. Broad market-based indices are used for comparison.

Furthermore, an ESG benchmark may rely on a framework with a selection of mandatory indicators for each pillar, with a defined minimum threshold for each of the indicator. Very importantly, minimum standards should apply to funds and also indexes in order not to differentiate active and passive management.

**Question 34:** Beyond the possible standards and labels mentioned above (for bonds, retail investment products, investment funds for professional investors, loans and mortgages, benchmarks), do you see the need for any other kinds of standards or labels for sustainable finance?

- Yes/No/Do not know.
- If yes, what should they cover thematically and for what types of financial products? [box max. 2000 characters]

~~We suggest creating a European framework with minimum standards for financial products that go beyond ESG integration and that demonstrate their contribution towards a more sustainable~~

economy. National labels have already emerged: it seems crucial to make sure of the compatibility of the EU label with the existing SRI national labels.

Furthermore, we note that the compliance burden and the global cost of such multi-labellisation should be seriously considered (a financial agent who practices engagement; ESG integration; impact investing and passive ESG investing for instance would be obliged to get a label on each of the activities mentioned, which could be quite burdensome). Thus, we may opt for a potential creation of the global sustainable finance framework in a form of an EU standard (representing minimum requirements) rather than a set of Labels requiring compliance and verification costs taken for each part of activities separately.

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<sup>6</sup>See for instance the work of the EEFIG (Energy Efficiency Financial Institutions Group set by the EC and the United Nations Environment Program Finance Initiative or UNEP FI) on the financial performance of energy efficiency loans or the [energy efficient mortgages initiatives](#).

## 1.5 Capital markets infrastructure

The recent growth in the market for sustainable financial instruments has raised questions as to whether the current capital markets infrastructure is fit for purpose. Having an infrastructure in place that caters to those types of financial instruments could support and further enhance sustainable finance in Europe.

**Question 35:** Do you think the existing capital market infrastructure sufficiently supports the issuance and liquidity of sustainable securities?

- Please express your view by using a scale of 1 (strongly disagree) to 5 (strongly agree). **3**
- For scores of 1 and 2, please list the main problems you see (maximum three). [BOX, 2000 characters].

**Question 36:** In your opinion, should the EU foster the development of a sustainable finance-oriented exchange or trading segments that caters specifically to trading in sustainable finance securities and is better aligned with the needs of issuers?

- Yes/**No**/Do not know.
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

**Question 37:** In your opinion, what core features should a sustainable finance-oriented exchange have in order to encourage capital flows to ESG projects and listing of companies with strong ESG characteristics, in particular SMEs?

- [BOX max. 2000 characters]

There is a strong need to better differentiate raw data harmonisation from rating harmonisation, in order to avoid the following pitfalls: hyper addiction to few rating agencies (power, cost) and procyclical side of the changes in these notations.

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## 1.6 Corporate governance, long-termism and investor engagement

To reflect long-term opportunities and risks, such as those connected to climate change and environmental degradation, **companies and investors need to integrate long-term horizons and sustainability in their decision-making processes.** However, this is often difficult in a context where market pressure and prevailing corporate culture prompt corporate managers and financial market participants to focus on near-term financial performance at the expense of mid- to long-term objectives. Focusing on short-term returns without accounting for long-term implications may lead to underperformance of the corporation and investors in the long-term, and, by extension, of the economy as a whole. In this context, investors should be driving long-termism, where this is relevant, and not pressure companies to deliver short-term returns by default.

**The ongoing COVID-19 outbreak in particular underscores that companies should prioritise the long term interests of their stakeholders.** Many companies in the EU have decided to prioritise the interests of key stakeholders, in particular employees, customers and suppliers, over short-term shareholder interest.<sup>7</sup> These factors contribute to driving long-term returns as they are crucial in order to maintain companies' ability to operate. Therefore, institutional investors have an important role to play in this context. As part of action 10 of the Action Plan on Financing Sustainable Growth, in December 2019 the **European Supervisory Authorities delivered reports ([ESMA report](#), [EBA report](#), [EIOPA report](#)) that had the objective of assessing evidence of undue short-**

<sup>7</sup>The [European Central Bank also recommended on 27 March 2020](#) that significant credit institution refrain from distributing dividend so that “they can continue to fulfil their role to fund households, small and medium businesses and corporations” during the COVID-19 economic shock.

**term pressure from the financial sector on corporations.** They identified areas within their remit where they found some degree of short-termism and issued policy recommendations accordingly. For instance, they advise the adoption of longer-term perspectives among financial institutions through more explicit legal provisions on sustainability.

**Question 38:** In your view, which recommendation(s) made in the ESAs' reports have the highest potential to effectively tackle short-termism? Please select among the following options.

- Adopt more explicit legal provisions on sustainability for credit institutions, in particular related to governance and risk management;
- Define clear objectives on portfolio turn-over ratios and holdings periods for institutional investors;
- Require Member States to have an independent monitoring framework to ensure the quality of information disclosed in remuneration reports published by listed companies and funds (UCITS management companies and AIFMs);
- **Other**, please specify. [box max. 2000 characters]

The rhetoric that has evolved into the terms “short-term” and “long-term” being used to describe “bad” and “good” behaviour is problematic.

There are different sources of capital: public and private equity, venture capital, debt, private placements etc. Each type serves a different purpose and has its own specific, recommended holding period. And besides that, take for instance a short dated money market instrument: it is rolled continuously so that it finances durably the short end of the yield curve and totally contributed to “ESG” financing. What is long-term also depends on the needs and profile of end-investors. While fiscal and regulatory incentives could help to encourage retail investors' longer-term investment outlook, we strongly caution against imposing any specific definition or time-frame for long-term investment as how long asset managers hold assets is based on investors' profile / needs and type of funds / assets.

Asset managers are not in the business of turning over the portfolio, they seek to achieve a return against a desired risk profile for their clients. Transaction costs drive down performance and are therefore not sought after by the asset manager. Portfolio turnover reflects inflows and redemptions from investors, and portfolio adjustments due to market conditions, and therefore is not an appropriate measure of “short-termism”. On remuneration, it is important to distinguish the remuneration of fund managers and that of corporate executives. Unlike the remuneration for asset managers, the remuneration of directors of investee companies remains much less regulated. We hope directors' remuneration practices in listed companies will improve with the implementation of SRD II, which is still ongoing. In this respect, we welcome ESMA recommendation to monitor the application of this Directive. Poor executive pay practices are symptoms of wider governance issues at a company, and engagement can be helpful in addressing them.

**Question 39:** Beyond the recommendations issued by the ESAs, do you see any barriers in the EU regulatory framework that prevent long-termism and/or do you see scope for further actions that could foster long-termism in financial markets and the way corporates operate?

- Yes/No/Do not know.
- If yes, please explain what action(s). [BOX max. 2000 characters]

The Shareholder Rights Directive II and an ambitious revision of the NFRD will enhance shareholders' capabilities to align their investments to the long-term expected competitiveness and sustainability of companies. However, there is still some barrier especially regarding voting (existing of POA, costs...) that regulation could speak of.

The Shareholder Rights Directive II states that **directors' variable remuneration** should be based on both financial and non-financial performance, where applicable. However, there is currently no requirement regarding what the fraction of variable remuneration should be linked to, when it comes to non-financial performance.

**Question 40:** In your view, should there be a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions?

- Yes/No/Do not know.
- If yes, please indicate what share. [box 2000 characters]

Soft law and engagement should help find appropriate solutions for each entity, the modalities vary from company to company and their specificities. It should be down to companies to decide which formula fits best their businesses and contexts.

**Question 41:** Do you think that a defined set of EU companies should be required to include carbon emission reductions, where applicable, in their lists of ESG factors affecting directors' variable remuneration?

- Yes/No/Do not know.

We favour non-mandatory recommendations for carbon emissions reduction targets in executive directors' remuneration packages. We recommend a "comply or explain" approach as carbon emissions reduction might not be the best indicator for some companies in some contexts (e.g. have acquired another company), and a comprehensive transition strategy might be more telling alongside other indicators (e.g. capex, taxonomy).

We would like to note that the term use should be "executive directors" not to be confused with "independent directors or non-executive directors" whose role is different. Independent or non-executive directors are not granted with any variable performance or non-performance-link remuneration.

The Shareholder Rights Directive II introduces **transparency requirements** to better align long-term interests between institutional investors and their asset managers.

**Question 42:** Beyond the Shareholder Rights Directive II, do you think that EU action would be necessary to further enhance long-term engagement between investors and their investee companies?

- Yes/No/Do not know.

- If yes, what action should be taken? Please explain or provide appropriate examples. [BOX max. 2000 characters]

It is often forgotten that the majority of companies in Europe have an ownership structure that responds to one majority shareholder and a smaller percentage of minority shareholders. This is particularly true for mid and small caps. In practice, this means that minority shareholders have their hands tied when it comes to engaging with the company as all resolutions voted need the majority shareholder approval. The AFG recommendation or the UK Code includes the need for companies to explain the consequence of a significant percentage of dissent by minority shareholders (20% or more). The purpose is to encourage companies to describe the process they will take to assess the concerns of shareholders while setting out how they intend to respond to those concerns.

**Question 43:** Do you think voting frameworks across the EU should be further harmonised at EU level to facilitate shareholder engagement and votes on ESG issues?

- Yes/No/Do not know

We support further harmonisation of voting frameworks across Member States. For investors like us proactively engaging with corporates in multiple Member States, different voting frameworks for different corporates adds a layer of complexity when seeking to file shareholder resolutions. If voting frameworks were harmonised, investors would be enabled to more efficiently and engage with corporates within their portfolios in relation to ESG issues.

**Question 44:** Do you think that EU action is necessary to allow investors to vote on a company's environmental and social strategies or performance?

- Yes/ No/Do not know.
- If yes, please explain. [BOX max. 2000 characters]

**Question 45:** Do you think that passive index investing, if it does not take into account ESG factors, could have an impact on the interests of long-term shareholders?

- Yes/ No/Do not know.
- If no, please explain the reasons for your answer if necessary. [BOX max. 2000 characters]
- If yes, in your view, what do you think this impact is, do you think that the EU should address it and how? [box max. 2000 characters]

We find that the questions raised on the incentives offered by passive index investing to engage with portfolio companies may arise from a misconception of investment management practices. We would like to emphasise that investors engage with companies in both active and passive funds. Active manager can typically leverage their ability to divest (or threaten to do so) in order to promote good governance in investee companies, while index investor usually leverage their size or influence to steer their long term governance.

To foster more sustainable corporate governance, as part of action 10 of the 2018 Action Plan on Financing Sustainable Growth, **the Commission launched a [study on due diligence](#)** (i.e. identification and mitigation of adverse social and environmental impact in

a company's own operations and supply chain), which was published in February 2020. This study indicated the need for policy intervention, a conclusion which was supported by both multinational companies and NGOs. Another study on directors' duties and possible sustainability targets will be finalised in Q2 2020.

**Question 46:** Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change. Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law?

- Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.
- Yes, as these issues are relevant to the financial performance of the company in the long term.
- No, companies and their directors should not take account of these sorts of interests.
- I do not know.

**Question 47:** Do you think that an EU framework for supply chain due diligence related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives?

- Yes/No/Do not know.

**Question 48:** Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?

- Yes/No/Do not know.
- If yes, please select your preferred option:
  - All companies, including SMEs.
  - All companies, but with lighter minimum requirements for SMEs.
  - Only large companies in general, and SMEs in the most risky economic sectors sustainability-wise.
  - Only large companies.
- If necessary, please explain the reasons for your answer. [box max. 2000 characters]

Europe's industrial fabric depends significantly on SMEs. If we are to create a carbon neutral, environmentally sustainable and inclusive economic model, SMEs should contribute to its creation as well as have the opportunity to benefit from it. However, their contribution should reflect their individual economic leverage, the impact of their activities (sector-based) and their capabilities, thus, light minimum requirements seem like the way forward. While the principle of proportionality should apply across the board, when it comes to human rights as the UN Guiding Principles on business and human rights (UNGPs) clearly state "it comprises all companies, of all sizes, in every sector, in any country". We suggest following the OECD MNEs and UN GPs guidelines on supply chain due diligence.

## 2. INCREASING OPPORTUNITIES FOR CITIZENS, FINANCIAL INSTITUTIONS AND CORPORATES TO ENHANCE SUSTAINABILITY

**Increased opportunities need to be provided to citizens, financial institutions and corporates in order to enable them to have a positive impact on sustainability.** Citizens can be mobilised by providing them with opportunities to invest their pensions and savings sustainably or by using digital tools to empower them to make their communities, their homes and their businesses more resilient. Financial institutions and corporates can

increase their contribution to sustainability if the right policy signals and incentives are in place. Furthermore, international cooperation and the use of sustainable finance tools and frameworks in developing countries can help build a truly global response to the climate and environmental crisis.

**As part of the European Green Deal, the Commission has launched a European Climate Pact** to bring together regions, local communities, civil society, businesses and schools in the fight against climate change, incentivising behavioural change from the level of the individual to the largest multinational, and to launch a new wave of actions. A [consultation on the European Climate Pact](#) is open until 27 May 2020 in order to better identify the areas where the Commission could support and highlight pledges as well as set up fora to work together on climate action (including possibly on sustainable finance).

## 2.1 Mobilising retail investors and citizens

Although retail investors today are increasingly aware that their own investments and deposits can play a role in achieving Europe's climate and environmental targets, they are not always offered sustainable financial products that match their expectations. In order to ensure that the sustainability preferences of retail investors are truly integrated in the financial system, it is crucial to help them to better identify which financial products best correspond to these preferences, providing them with user-friendly information and metrics they can easily understand. To that end, the European Commission will soon publish the amended delegated acts of MIFID II and IDD, which will require investment advisors to ask retail investors about their sustainability preferences.

**Question 49:** In order to ensure that retail investors are asked about their sustainability preferences in a simple, adequate and sufficiently granular way, would detailed guidance for financial advisers be useful when they ask questions to retail investors seeking financial advice?

- Yes/No/Do not know.
- If necessary, please provide an explanation of your answer. [box max. 2000 characters]

We agree that an assessment of sustainability preferences should be part of the financial advice for investment products. We also tend to agree that Commission's guidance for financial advisers would be useful at a later this stage, when regulations are stabilized, including the MIFID regulation mentioned below, among other things, to provide additional clarity and to reduce implementation costs for the industry by ensuring that all market participants are working towards answering the same questions. However, in order to maintain adequate flexibility with respect to current practices, we emphasise that any such guidance should not be prescriptive and should be developed in consultation with financial services providers from all parts of retail servicing spectrum.

In addition, we note that the European Commission's recently proposed changes to the MiFID II Delegated Directive and Regulation already require financial adviser to consider an investor's ESG considerations when providing financial advice. Given that this important update to MiFID II framework is currently ongoing, we highlight that the Commission should seek to avoid any duplication with this workstream.

**Question 50:** Do you think that retail investors should be systematically offered sustainable investment products as one of the default options, when the provider has them available, at a comparable cost and if those products meet the suitability test?

- Yes/No/Do not know.

**Question 51:** Should the EU support the development of more structured actions in the area of financial literacy and sustainability, in order to raise awareness and knowledge of sustainable finance among citizens and finance professionals? Please reply using a scale of 1 (completely disagree) to 5 (fully agree)

- If you agree (for scores of 4 to 5), please choose what particular action should be prioritised:
  - Integrate sustainable finance literacy in the training requirements of finance professionals. [1-5] 5
  - Stimulate cooperation between Member States to integrate sustainable finance as part of existing subjects in citizens' education at school, possibly in the context of a wider effort to raise awareness about climate action and sustainability.[1-5] 3
  - Beyond school education, stimulate cooperation between Member States to ensure that there are sufficient initiatives to educate citizens to reduce their environmental footprint also through their investment decisions. [1-5] 3
  - Directly, through targeted campaigns. [1-5] 4
  - As part of a wider effort to raise the financial literacy of EU citizens. [1-5] 5
  - As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities. [1-5] 4
  - Promote the inclusion of sustainability and sustainable finance in the curricula of students, in particular future finance professionals. [1-5] 5
  - Other, please explain.[box max. 2000 characters]

We support the ECB call to enhance financial literacy in general – and sustainable finance literacy in particular – and the recommendations made.

Sustainable finance could become part of standard training curricula for financial professionals.

## 2.2 Better understanding the impact of sustainable finance on sustainability factors

**While sustainable finance is growing, there are questions on how to measure and assess the positive impact of sustainable finance on the real economy.** Recently, tools have been developed that can be used to approximate an understanding of the climate and environmental impact of economic activities that are being financed. Examples of such tools include the EU Taxonomy, which identifies under which conditions economic activities can be considered environmentally sustainable, use-of-proceeds reporting as part of green bond issuances, or the Disclosure Regulation, which requires the reporting of specific adverse impact indicators.

Yet, an improved understanding of how different sustainable financial products impact the economy may further increase their positive impact on sustainability factors and accelerate the transition.

**Question 52:** In your view, is it important to better measure the impact of financial products on sustainability factors?

- Please express your view by using a scale of 1 (not important at all) to 5 (very important). 5

- For scores of 4 to 5, what actions should the EU take in your view? [BOX max. 2000 characters]

We believe that ensuring investors have a clear understanding of the impact of their investments on sustainability factors is critical to ensuring that the Paris Agreement goals are met, but also more broadly to building a more cohesive society. Hence, we recommend broadening the taxonomy to social activities given the importance of also promoting social positive impact and of the development of social financial products. It is worth highlighting the unique role of active management and analysis as it provides that further insight of how companies are run, the quality of management and their strategies.

We believe it is important is to minimise adverse impacts on sustainability factors. It is also critical to:

- avoid unintended consequences by requiring the reporting of indicators that lack contextualisation or maturity;
- not lose track of the meaningfulness of the different indicators and the level of maturity of those.

Furthermore, we believe that the SFDR will be an important milestone in that perspective, providing more transparency to clients and external stakeholders but also helping to ensure that sustainability becomes an even greater focus for the whole investment industry, from portfolio managers to risk managers and sales teams.

However, the lack of standardized, mandatory, audited and comprehensive data is a key issue in this perspective, and we do not think that until the revised NFRD has been fully implemented, SFDR and Taxonomy regulations will be useful tools to be used, but that no further regulatory actions should be taken in the short term. As part of the NFRD review, we support the creation of a European standard. Metrics should rely on common methodologies and will be an extremely helpful tool to measure the impact of investments on sustainability factors.

**Question 53:** Do you think that all financial products / instruments (e.g. shares, bonds, ETFs, money market funds) have the same ability to allocate capital to sustainable projects and activities?

- Yes/No/Do not know.
- If no, please explain what you would consider to be the most impactful products/instruments to reallocate capital in this way.[box max. 2000 characters]

All instruments have the ability to allocate capital to sustainable projects even though all don't have the same type of impact. It would be wrong and inefficient from an economic perspective to leave some aside as they all play a role in financing a more sustainable economy. Diversification of instruments is of utmost importance in order to accompany transition. If we take money market instruments for instance, they play a very important part to finance on long term the short end of the curve. It should be recognised that these instruments are held perpetually in the money market funds (through their continuous roll) so that they finance on a continuous basis the economy (corporates and banks for instance). ETFs may also follow ESG strategies and an index/benchmark may be constructed to follow an ESG strategy and their asset managers practice vote and stewardship to engage with companies.

### 2.3 Green securitisation

Securitisation is a technique that converts illiquid assets, such as bank loans or trade receivables, into tradeable securities. As a result, banks can raise fresh money as well as move credit risk out of their balance sheets, thereby freeing up capital for new lending. Securitisation also facilitates access to a greater range of investors, who can benefit from the banks' expertise in loan origination and servicing, thereby diversifying risk exposure. Green securitisations and collaboration between banks and investors could play an important role in financing the transition as banks' balance sheet space might be too limited to overcome the green finance gap. The EU's new securitisation framework creates a specific framework for high-quality Simple, Transparent and Standardised (STS) securitisations, together with a more risk-sensitive prudential treatment for banks and insurers.

**Question 54:** Do you think that green securitisation has a role to play to increase the capital allocated to sustainable projects and activities?

- Please express your view by using a scale of 1 (not important at all) to 5 (very important). 5
- If necessary, please explain your answer. [box, max. 2000 characters]

AFG believes that the participation of asset managers in the financing of the green/ESG economy is very important to encourage. This participation may take different forms when it comes to loan origination and securitisation: asset managers may originate and acquire loans in some specialised institutional oriented AIFs (no tranching) and have securitisation financing strategies encompassing the possibility of tranching in non AIF securitisation financing schemes. The banks' balance sheets do not cover the full spectrum needed to invest in the green/ESG economy. It is thus needed to recognise the importance of the other players that participate to this financing via co-investments, syndicated loans, loan origination and acquisition, securitisation, etc. Private debt and securitisation funds have thus an important role to play.

**Question 55:** Do the existing EU securitisation market and regulatory frameworks, including prudential treatment, create any barriers for securitising ‘green assets’ and increasing growth in their secondary market?

- Yes/No/Do not know.
- If yes, please list the barriers you see (maximum three). [BOX max. 2000 characters]

**Question 56:** Do you see the need for a dedicated regulatory and prudential framework for ‘green securitisation’?

- Yes/No/Do not know.
- If yes, what regulatory and/or prudential measures should the dedicated framework contain and how would they interact with the existing general rules for all securitisations and specific rule for STS securitisations? [box max. 2000 characters]

## 2.4 Digital sustainable finance

The ongoing COVID-19 outbreak is highlighting the key role of digitalisation for the daily personal and professional lives of many Europeans. However, it has also revealed how digital exclusion can exacerbate financial exclusion – a risk that needs to be mitigated.

Digitalisation is transforming the provision of financial services to Europe’s businesses and citizens As shown in the [Progress Report of the UN Secretary-General’s Task Force on Digital Financing of the Sustainable Development Goals \(SDGs\)](#), digital finance brings a wide array of opportunities for citizens worldwide by making it easier to make payments, save money, invest, or get insured. However, digital finance also brings new risks, such as deepening the digital divide. It is therefore paramount to ensure that the potential of digitalisation for sustainable finance is fully reaped, while mitigating associated challenges appropriately. In this context, the Commission has launched a consultation dedicated to digital finance.

In the area of sustainable finance, technological innovation such as Artificial intelligence (AI) and machine learning can help to better identify and assess to what extent a company’s activities, a large equity portfolio, or a bank’s assets are sustainable. The application of Blockchain and the Internet of Things (IoT) may allow for increased transparency and accountability in sustainable finance, for instance with automated reporting and traceability of use of proceeds for green bonds.

**Question 57:** Do you think EU policy action is needed to maximise the potential of digital tools for integrating sustainability into the financial sector?

- Yes/No/Do not know
- If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider? Please list a maximum of three actions and a maximum of three existing initiatives. [BOX max. 2000 characters]

EU policy action is needed in order to create a European centralised database, filled in with raw data.

Facilitate and support collaboration and development of green and sustainable FinTech solutions. Support for sustainable FinTech sector. Potentially, as part of the progress of regulation on the FinTech (Digital finance) to consider specific political and economic tools

to incentivise the development of green FinTech; and to include incentives on development of sustainable FinTech as part of the Sustainable Finance strategy.

Potentially, to create collaboration facilities to bring green FinTech towards traditional financial sectors and agents as in most cases today, these two worlds exist in parallel.

In particular, digitalisation has the potential to empower citizens and retail investors to participate in local efforts to build climate resilience. For instance, [M-Akiba](#) is a Government of Kenya-issued retail bond that seeks to enhance financial inclusion for economic development. Money raised from issuance of M-Akiba is dedicated to infrastructural development projects, both new and ongoing.

**Question 58:** Do you consider that public authorities, including the EU and Member States should support the development of digital finance solutions that can help consumers and retail investors to better channel their money to finance the transition?

- Yes/No/Do not know.
- If yes, please explain what actions would be relevant from your perspective and which public authority would be best-positioned to deliver it. Please list a maximum of three actions [BOX max. 2000 characters]

We consider that it would be relevant to control what type of ESG information is available and provided to retail clients by various research and fund comparison platforms. Today, these platforms aggregate information on investment funds existing and classify those by their financial characteristics and more recently by their ESG characteristics to provide retail investors with a basis for comparison and choice of investment vehicle for their capital. The ESG data used to perform such comparison and classification as well as methodologies behind such classifications vary a lot from one platform to another. Enhanced transparency and minimum ESG standards harmonisation could be of use.

Also, as regards any platforms allowing retail clients to purchase and hold financial products (for instance, online banks and neo banks, online brokers, etc.), the quality and availability of ESG information on financial products proposed via these industry agents remain limited. Enhanced transparency and minimum ESG standards harmonisation could be of use.

**Question 59:** In your opinion, should the EU, Member States, or local authorities use digital tools to involve EU citizens in co-financing local sustainable projects?

- Yes/No/Do not know.
- If yes, please detail, in particular if you see a role for EU intervention, including financial support. [BOX max. 2000 characters]

Digitalisation has the potential to empower citizens and retail investors to participate in local efforts to build climate resilience. For instance, [M-Akiba](#) is a Government of Kenya-issued retail bond that seeks to enhance financial inclusion for economic development. Money raised from issuance of M-Akiba is dedicated to infrastructural development projects, both new and ongoing.

Although digital tools may be useful to involve citizens in co-financing local sustainable

projects, we would caution that it is not a magic bullet and must be seen as one means among others to achieve this goal.

## 2.5 Project Pipeline

The existing project pipeline (availability of bankable and investable sustainable projects) is generally considered to be insufficient to meet current investor demand for sustainable projects. Profitability of existing business models plays a role, with some projects (e.g. renewable energy), being more bankable than others (e.g. residential energy efficiency). Identifying the key regulatory and market obstacles that exist at European and national level will be key in order to fix the pipeline problem. Please note that questions relating to incentives are covered in section 2.6.

**Question 60:** What do you consider to be the key market and key regulatory obstacles that prevent an increase in the pipeline of sustainable projects? Please list a maximum three for each.

- BOX max. 2000 characters
- Historically, many new projects sustainable projects have been characterized by high risk. This calls for shared risk through increased Public-Private Partnership, especially in the proof of concept phase primarily for capital-intensive business models when more public funding is needed.
- The general unclarity about the usability of the taxonomy is also a challenge in respect of sustainable projects for start-ups, who in turn are important in developing new sustainable projects and solutions.
- There is lack of incentives for green labelling of existing assets.

**Question 61:** Do you see a role for Member States to address these obstacles through their NECPs (National Energy and Climate Plans)?

- Yes/No/Do not know  
If necessary, please provide details. [box. Max. 2000 characters]

**Question 62:** In your view, how can the EU facilitate the uptake of sustainable finance tools and frameworks by SMEs and smaller professional investors? Please list a maximum of three actions you would like to see at EU-level

- [BOX max. 2000 characters]
- Improve financial incentives for SMEs for green and social issuances as the reputational benefits for SMEs are often limited.
- Standardised high-profiled labelling to potentially improve reputational benefits.
- Provide support and guarantee frameworks for small businesses sustainable investing

**Question 63:** The transition towards a sustainable economy will require significant investment in research and innovation (R&I) to enable rapid commercialisation of promising and transformational R&I solutions, including possible disruptive and breakthrough inventions or business models. How could the EU ensure that the financial tools developed to increase sustainable investment flows turn R&I into investable (bankable) opportunities?

- [Box max. 2000 characters]

This is not EU's role but it is market role to foster investable opportunities. To favor it, EU could create a favorable framework, without too much administrative burden, while favouring Public-Private Partnerships.

**Question 64:** In particular, would you consider it useful to have a category for R&I in the EU Taxonomy?

- Yes/No/Do not know

**Question 65:** In your view, do you consider that the EU should take further action in:

- Bringing more financial engineering to sustainable R&I projects? Yes/No
- Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)? Yes/No
- Better identifying areas in R&I where public intervention is critical to crowd in private funding? Yes/No
- Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds? Yes/No
- Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)? Yes/No
- Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication? Yes/No
- Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions? Yes/No
- Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks? Yes/No

- If necessary, please explain your answer. [Box max. 2000 characters]

## 2.6 Incentives to scale up sustainable investments

**While markets for sustainable financial assets and green lending practices are growing steadily, they remain insufficient to finance the scale of additional investments needed to reach the EU’s environmental and climate action objectives,** including climate-neutrality by 2050. For instance, companies’ issuances of sustainable financial assets (bonds, equity) and sustainable loans currently do not meet investors’ increasing interest. The objective of the European Green Deal Investment Plan, published on 14 January 2020, is to mobilise through the EU budget and the associated instruments at least EUR 1 trillion of private and public sustainable investments over the coming decade. The purpose of this section is to identify whether there are market failures or barriers that would prevent the scaling up of sustainable finance, and if yes what kinds of public financial incentives could help rectify this.

**Question 66:** In your view, does the EU financial system face market barriers and inefficiencies that prevent the uptake of sustainable investments?

- Please express your view on the current market functioning by using a scale of 1 (not well functioning at all) to 5 (functioning very well). **2**
- Please specify your answer. [BOX max. 2000 characters]

The biggest challenge is lack of good quality data. With the standardization and creation of sector-specific sustainable criteria the uptake of sustainable investments is starting to become more widespread. However, benefits are largely still reputational, which is mainly relevant to larger companies.

The need for some direct or indirect support mechanisms to environmentally intensive activities remains.

**Question 67:** In your view, to what extent would potential public incentives for issuers and lenders boost the market for sustainable investments?

- Please express your view on the importance of financial incentives by using a scale of 1 (not effective at all) to 5 (very effective).
- In case you see a strong need for public incentives (scores of 4 to 5), which specific incentive(s) would support the issuance of which sustainable financial assets, in your view? Please rank their effectiveness using a scale of 1 (not effective at all) to 5 (very effective).

<u>Types of incentives</u>	<u>Bonds</u>	<u>Loans</u>	<u>Equity</u>	<u>Other</u>
Revenue-neutral subsidies for issuers				
De-risking mechanisms such as guarantees and blended financing instruments at EU-level				
Technical Assistance				

Any other public sector incentives - Please specify in the box below.				
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- Please specify the reasons for your answer (provide if possible links to quantitative evidence) and add any other incentives you would like the Commission to consider. [BOX max. 2000 characters]

**Question 68:** In your view, to what extent would potential incentives for investors (including retail investors) help create an attractive market for sustainable investments?

- Please express your view by using a scale of 1 (not effective at all) to 5 (very effective).
- For scores of 4 to 5, in case you see a strong need for incentives for investors, which specific incentive(s) would best support an increase in sustainable investments? [drop down menu]
  - Revenue-neutral public sector incentives
  - Adjusted prudential treatment **4**
  - Public guarantee or co-financing
  - Other
- Please specify the reasons for your answer (provide if possible links to quantitative evidence) and the category of investor to whom it should be addressed (retail, professional, institutional, other). [BOX max. 2000 characters]

**Question 69:** In your view, should the EU consider putting in place specific incentives that are aimed at facilitating access to finance for SMEs carrying out sustainable activities or those SMEs that wish to transition?

- **Yes**/No/Do not know.
- If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue? [box max. 2000 characters]

## 2.7 The use of sustainable finance tools and frameworks by public authorities

**Even though the potential scope of sustainable finance is broad, it is often viewed as being only confined to the ambit of private financial flows within capital markets.** Nevertheless, the boundary between public and private finance is not always strict and some concepts that are generally applied to private finance could also be considered for the public sector, such as the EU Taxonomy. This is recognised in the [European Green Deal Investment Plan](#) and the [Climate Law](#), where the Commission committed to exploring how the EU Taxonomy can be used in the context of the European Green Deal by the public sector, beyond InvestEU. The InvestEU programme, proposed as part of the EU's Multiannual Financial Framework 2021 – 2027, combines public and private funding and once the taxonomy is in place (from end-2020 onwards) will serve as a test case for its application in public sector-related spending.

**Question 70:** In your view, is the EU Taxonomy, as currently set out in the [report](#) of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector, for example in order to classify and report on green expenditures?

- Yes - please explain which public authority could use it, how and for what purposes. [Box max. 2000 characters]
- **Yes, but only partially** - please explain which public authority could use it, how and for what purposes, as well as the changes what would be required to make it fit for purpose.

[Box max. 2000 characters]

- No - please explain why you consider that it is not suitable for use by public authorities, and how those reasons could be best addressed in your view. [Box max. 2000 characters]
- Do not know.

For the Taxonomy to be used by the public sector for example to classify and report on green expenditures, we believe the Taxonomy needs to be refined, in particular as we believe the scope of the Taxonomy needs to be reviewed in order to better cover enabling activities which will be critical to support the transition of most companies, as well as companies which are engaged in a transition strategy, with a clear and measurable transition plan. For instance, certain sectors such as transportation could be included based on strict criteria and commitments.

**Question 71:** In particular, is the EU Taxonomy, as currently set out in the [report](#) of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector in the area of green public procurement?

- Yes/**Yes, but only partially**/No /Do not know
- If no or yes, but only partially, please explain why and how those reasons could be best addressed. [BOX max. 2000 characters]

The analysis of the supply chain and procurement activities should be comprehensive and should not be restricted to the Taxonomy only.

**Question 72:** In particular, should the EU Taxonomy<sup>8</sup> play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.

- Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation;
- **Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation.**
- No;
- Do not know.

#### Follow-up questions:

- If yes, what role should it play and is the taxonomy, as currently set out in the [report of the Technical Expert Group on Sustainable Finance](#), suitable for the following purposes? Select all that apply:
  - In the context of some EU spending programmes: BOX [max 2000 characters]
  - In the context of EU state aid rules: BOX [max 2000 characters]
  - Other, please specify. BOX [max. 2000 characters]
- If yes, but only if social objectives are included; what role do you see for a social, climate and environmental taxonomy? Select all that apply.

- In the context of some EU spending programmes: BOX [max 2000 characters]
- In the context of EU state aid rules: BOX [max 2000 characters]
- **Other**, please specify. BOX [max. 2000 characters]

Again, such analysis should be comprehensive and should not be restricted to the Green Taxonomy only. A comprehensive analysis and impact assessment should be conducted to establish the relevance and the outcomes of the Taxonomy application in each of these domains.

**Question 73:** Should public issuers, including Member States, be expected to make use of a future EU Green Bond Standard for their green bond issuances, including the issuance of sovereign green bonds in case they decide to issue this kind of debt?

- **Yes**/No/Do not know.
- If no, are there specificities of public issuers and funded projects or assets that the existing guidance on green bonds, developed by the TEG, does not account for? [BOX max. 2000 characters]  
[BOX max. 2000 characters]

## 2.8 Promoting intra-EU cross-border sustainable investments

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<sup>8</sup>The six environmental objectives set out in the Taxonomy Regulation are the following: (1) climate change mitigation, (2) climate change adaptation, (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention and control, (6) protection and restoration of biodiversity and ecosystems.

In order to attract and encourage cross-border investments, a range of investment promotion services have been put in place by public authorities. Investment promotion services include for instance information on the legal framework, advice on the project, such as on financing, partner and location search, support in completing authorisations and problem-solving mechanisms relating to issues of individual or general relevance. In some cases specific support is provided for strategic projects or priority sectors.

**Question 74:** Do you consider that targeted investment promotion services could support the scaling up of cross-border sustainable investments?

- Yes/No/Do not know.
- If yes, please specify what type of services would be useful for this purpose:
  - Information on legal frameworks
  - Individualised advice (e.g. on financing)
  - Partner and location search
  - Support in completing authorisations
  - Problem-solving mechanisms
  - Other, please specify [box max. 2000 characters]

## 2.9 EU Investment Protection Framework

To encourage long-term sustainable investments in the EU, it is essential that investors are confident that their investments will be effectively protected throughout their life-cycle in relation to the state where they are located. The EU investment protection framework includes the single market fundamental freedoms, property protection from expropriation, the principles of legal certainty, legitimate expectations and good administration which ensure a stable and predictable environment, including remedies and enforcement in national courts. These elements can have an impact on cross-border investment decisions, especially for long-term investments. While a separate consultation on investment protection will take place soon, **the purpose of this section is to investigate whether the above-mentioned factors have an impact on sustainable projects in particular**, such as for instance for long-term infrastructure and innovation projects necessary for the EU's industrial transition towards a sustainable economy.

**Question 75:** Do you consider that the investment protection framework has an impact on decisions to engage in cross-border sustainable investment? Please choose one of the following:

- Investment protection has **no impact**.
- Investment protection has **a small impact** (one of many factors to consider).
- Investment protection has **medium impact** (e.g. it can lead to an increase in costs).
- Investment protection has a **significant impact** (e.g. influence on scale or type of investment).
- Investment protection is a factor that can have a **decisive impact** on cross-border investments decisions and can result in cancellation of planned or withdrawal of existing investments.
- Do not know.

## 2.10 Promoting sustainable finance globally

The global financial challenge posed by climate change and environmental degradation requires an **internationally coordinated** response. To complement the work done by the Network of Central Banks and Supervisors for Greening the Financial system (NGFS) on climate-related risks and the Coalition of Finance Ministers for Climate Action mainly on public budgetary matters and fiscal policies, **the EU has launched together with the relevant public authorities from like-minded countries the [International Platform on Sustainable Finance](#) (IPSF)**. The purpose of the IPSF is to promote integrated markets for environmentally sustainable investment at a global level. It will deepen international coordination on approaches and initiatives that are fundamental for private investors to identify and seize environmentally sustainable investment opportunities globally, in particular in the areas of taxonomy, disclosures, standards and labels.

**Question 76:** Do you think the current level of global coordination between public actors for sustainable finance is sufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs)?

- Please express your view by using a scale of 1 (highly insufficient) to 5 (fully sufficient). **1**
- For scores of 1-2, what are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions? [BOX max. 2000 characters]

The lack of harmonized standards, and the increasing regulatory guidance from the EU regulator which is not seen in other geographies and in particular in the US which concentrates a significant part of the financial industry is a key issue. As such, ensuring a collaborative approach with other geographies when developing standards for instance in relation with non-financial information, or ESG approaches will be critical to the successful development of sustainable finance globally.

Several global initiatives are already on-going in the industry to try to define standards with regards to impact measurement, climate methodologies, etc. It will be critical to ensure that European players can still play a role in them, and that local regulation does not create barriers to the development of such standards.

**Question 77:** What can the Commission do to facilitate global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs? Please list a maximum of three proposals.

- [BOX max. 2000 characters]
  - Incentivise EU players to continue to take part in pre-existing initiatives at the global level in order to try to define common methodologies to measure impact or to measure climate footprint, etc.
  - Provide a combination of flexibility while these standards are in works: if regulatory action was to set too strict standards at the EU level in the short term, there would be a risk that EU actors become disconnected from the rest of the financial industry.
  - Leverage on the creation of the EU Platform on sustainable finance: further include private sector experts and apply the principle of diversity in the choice of experts (to allow representation of all types of actors) and support creation of similar (public-private) platform or market-place mechanisms to allow easy and direct communication between market agents.

**Question 78:** In your view, what are the main barriers private investors face when financing sustainable projects and activities in emerging markets and/or developing economies? Please select all that apply.

- Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.);
- Lack of clearly identifiable sustainable projects on the ground;
  - Excessive (perceived or real) investment risk;
  - Difficulties to measure sustainable project achievements over time;
  - Other, please specify [BOX max. 2000 characters].

**Question 79:** In your opinion, in the context of European international cooperation and development policy, how can the EU best support the mobilisation of international and domestic private investors to finance sustainable projects and activities in emerging markets and developing countries, whilst avoiding market distortions?

- Please provide a maximum of three proposals. [BOX max. 2000 characters]

**Question 80:** How can EU sustainable finance tools (e.g. taxonomy, benchmarks, disclosure requirements) be used to help scale up the financing of sustainable projects and activities in emerging markets and/or developing economies? Which tools are best- suited to help increase financial flows towards and within these countries and what challenges can you identify when implementing them? Please select among the following options.

- All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change.

- Some tools can be applied, but not all of them. If necessary, please explain [box max. 2000 characters].
- **These tools need to be adapted to local specificities in emerging markets and/or developing economies.** Please explain how you think they could be adapted [box max. 2000 characters].
- Do not know.

**Question 81:** In particular, do you think that the EU Taxonomy is suitable for use by development banks, when crowding in private finance, either through guarantees or blended finance for sustainable projects and activities in emerging markets and/or developing economies?

- Yes / **Yes, but only partially** / no / do not know.
- If no or yes, but only partially, please explain why and how the obstacles you identify could be best addressed [box max. 2000 characters].

### **3. REDUCING AND MANAGING CLIMATE AND ENVIRONMENTAL RISKS**

Climate and environmental risks, including relevant transition risks, and their possible negative social impacts, can have a disruptive impact on our economies and financial system, if not managed appropriately. Against this background, the three European supervisory authorities (ESAs) have each developed work plans on sustainable finance.<sup>9</sup> Building, among others, on the ESAs' activities further actions are envisaged to improve the management of climate and environmental risks by all actors in the financial system. In particular, the political agreement on the Taxonomy Regulation tasks the Commission with publishing a report on the provisions required for extending its requirements to activities that do significantly harm environmental sustainability (the so-called "brown taxonomy").

#### **3.1 Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments**

**Question 82:** In particular, do you think that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called "brown taxonomy") at EU level, in line with the review clause of the political agreement on the Taxonomy Regulation?

- Yes/**No**/Do not know.
- If no, please explain why you disagree [BOX max. 2000 characters]
- If yes, what would be the purpose of such a brown taxonomy? (select all that apply)
  - Help supervisors to identify and manage climate and environmental risks.
  - Create new prudential tools, such as for exposures to carbon-intensive industries.
  - Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities.
  - Identify and stop environmentally harmful subsidies.
  - Other, please specify. [box max. 2000 characters]

Our members brought forward mixed arguments on the issue of the brown Taxonomy. In any case, the very first next step should be to extend the positive taxonomy to other environmental objectives and social considerations before assessing the merits of elaborating a brown one.

Having said that, if a brown taxonomy is to be developed, it should be science based. While we do see the merits in a brown taxonomy, such an approach is already being developed with the DNSH criteria as well as the adverse impact indicators. Furthermore, companies that would belong to the brown Taxonomy will need to finance their transition and we are afraid of bad market conditions if they are flagged as such.

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<sup>9</sup> More information on the ESAs' activities on sustainable finance is available on the authorities' websites. See in particular ESMA's strategy ([https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052\\_sustainable\\_finance\\_strategy.pdf](https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052_sustainable_finance_strategy.pdf)), EBA Action Plan (, and EIOPA's dedicated webpage ([https://www.eiopa.europa.eu/browse/sustainable-finance\\_en](https://www.eiopa.europa.eu/browse/sustainable-finance_en))

**Question 83:** Beyond a sustainable and a brown taxonomy, do you see the need for a taxonomy which would cover all other economic activities that lie in between the two ends of the spectrum, and which may have a more limited negative or positive impact, in line with the review clause of the political agreement on the Taxonomy Regulation?

- Yes/No/Do not know.
- If yes, what should be the purpose of such a taxonomy? Please specify. [BOX max. 2000 characters]

In case the development of a brown taxonomy is decided, we also need an intermediate one. We believe that it is important to identify those activities that neither contribute substantially, nor harm significantly. The development of a green and a brown taxonomy will ensure that is the case, and if the taxonomy expands to cover social activities, it will cover a large spectrum of the economy. There are two other aspects worth having in mind:

1. The taxonomy should continue to identify “cross-cutting” activities e.g. buildings (which is already the case) which would allow a series of actors that conduct those activities that fall outside the remit of the taxonomy also to contribute e.g. service company that retrofits its headquarters so that all actors can benefit from the taxonomy to finance sustainability projects and actions.
2. The distinction between analysing activities (the taxonomy) and an overall entity. The taxonomy complements a company-wide environmental analysis. In order to judge a company’s management of environmental risks, analysis at company-level is required which will include aspects not covered by the taxonomy because of its very nature, for example:
  - the governance of sustainability factors,
  - the company’s strategy e.g. transition strategy
  - supply chain management and purchasing practices
  - marketing practices, etc.

We also believe that such development could benefit investors in helping them identify those investments that pose a real risk from those that are transitioning and those neither contribute nor harm (“neutral”). Mandatory reporting at fund levels opens the door to wrongly consider as “brown” activities that are “neutral” or that they are making efforts to transition.

### 3.2 Financial stability risk

The analysis and understanding of the impact of climate-related and environmental risks on financial stability is improving, thanks in particular to the work done by supervisors and central banks,<sup>10</sup> regulators and research centres. However, significant progress still needs to be made in order to properly understand and manage the impact of these risks.

**Question 84:** Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system. What are in your view the most important channels through which climate change will affect your industry? Please provide links to quantitative analysis when available.

- Physical risks, please specify if necessary [BOX max. 2000 characters]
- Transition risks, please specify if necessary [BOX max. 2000 characters]

- Second-order effects, please specify if necessary [BOX max. 2000 characters]
- Other, please specify [BOX max. 2000 characters]

We think that climate change is a risk that differs from many other risks: among many other features, the forces behind climate change are non-linear and interacting with each other. So a scenario analysis approach helps but it provides only a limited understanding of the exposure of corporates and governments to climate change related risks.

It is illustrated with the Covid 19: a virus triggered a move on the oil price. Similarly, a US NGO triggered an acceleration on the auto maker industry regulation at the EU level that reshaped the entire landscape of this industry.

So the question becomes rather to find whether corporates and governments are resilient facing some external shocks.

It will be complementary to a quantitative approach.

**Question 85:** What key actions taken in your industry do you consider to be relevant and impactful to enhance the management of climate and environment related risks?

- Please identify a maximum of three actions taken in your industry [BOX max. 2000 characters]

There are a number of initiatives that are giving consideration to this issue and could provide useful examples and approaches for the Commission to draw on.

**Question 86:** Following the financial crisis, the EU has developed several macro-prudential rather to find whether in particular for the banking sector (CRR/CRDIV), which aim to address systemic risk in the financial system. Do you consider the current macro-prudential policy toolbox for the EU financial sector sufficient to identify and address potential systemic financial stability risks related to climate change?

- Please express your view by using a scale of 1 (highly inadequate) to 5 (fully sufficient).
- For scores of 1-2, what solution would you propose? Please list a maximum of three. [BOX max 2000 characters]

Some macro-prudential policies related to the banking sector lead to the development of some forms of contingent capital. Similarly, the sectors at risk on climate change could require some forms of capital that protects society from unexpected external shocks reducing thus the potential need to be rescued from governments.

### *Insurance prudential framework*

Insurers manage large volumes of assets on behalf of policyholders and they can therefore play an important role in the transition to a sustainable economy. At the same

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<sup>10</sup> See for instance the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).

time, insurance companies have underwriting liabilities exposed to sustainability risks. In addition, the (re)insurance sector plays a key role in managing risks arising from natural catastrophes through risk-pooling and influencing risk mitigating behaviour. The [Solvency II Directive](#)<sup>11</sup> sets out the prudential framework for insurance companies. The Commission requested [technical advice](#) from the European Insurance and Occupation Pensions Authority (EIOPA) on the integration of sustainability risks and sustainability factors in Solvency II. The Commission also [mandated EIOPA](#) to investigate whether there is undue volatility of their solvency position that may impede long-term investments, as part of the 2020 Review of Solvency II. EIOPA is expected to submit its final advice in June 2020.

In September 2019, EIOPA already provided an [opinion](#) on sustainability within Solvency II. EIOPA identified additional practices that should be adopted by insurance companies to ensure that sustainability risks are duly taken into account in companies' risk management.

On that basis, the Commission could consider clarifications of insurers' obligations as part of the review of the Solvency II Directive. Stakeholders will soon be invited to comment on the Commission's inception impact assessment as regards the review. The Commission will also launch a public consultation as part of the review.

**Question 87:** Beyond prudential regulation, do you consider that the EU should take further action to mobilise insurance companies to finance the transition and manage climate and environmental risks?

- Yes/No/[Do not know](#).
- If yes, please specify which actions would be relevant. [BOX max. 2000 characters]

### *Banking prudential framework*

In the context of the last CRR/D review, co-legislators agreed on three actions aiming at integrating ESG considerations into EU banking regulation:

- a mandate for the EBA to assess and possibly issue guidelines regarding the inclusion of ESG risks in the supervisory review and evaluation process (SREP) (Article 98(8)CRD);
- a requirement for large, listed institutions to disclose ESG risks (Article 449a CRR) (note that some banks are also in the scope of the NFRD);
- a mandate for the EBA to assess whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with sustainability objectives would be justified (Article 501c CRR).

Because the work on ESG risks was at its initial stages, co-legislators agreed on a gradual approach to tackling those risks. However, given the new objectives under the European Green Deal, it can be argued that the efforts in this area need to be scaled up in order to support a faster transition to a sustainable economy and increase the resilience of physical assets to climate and environmental risks. Integrating sustainability

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<sup>12</sup>The analysis shows that the preparedness of pension schemes to integrate sustainability factors is widely dispersed and seems correlated to how advanced national frameworks were. IORP II directive sets minimum harmonisation and was expected to be transposed in national law by January 2019 (and hence could not necessarily be expected to be implemented by end-2018 for the EIOPA survey for the 2019 stress test).

considerations in banks' business models requires a change in culture which their governance structure needs to effectively reflect and support.

**Question 88:** Do you consider that there is a need to incorporate ESG risks into prudential regulation in a more effective and faster manner, while ensuring a level- playing field?

- Yes/No/**Do not know.**
- If yes, is there any category of assets that could warrant a more risk-sensitive treatment? Are there any other prudential measures that could help promoting in a prudentially sound way the role of the EU banking sector in funding the transition to a more sustainable economy? [box max. 2000 characters]

**Question 89:** Beyond prudential regulation, do you consider that the EU should take further action to mobilise banks to finance the transition and manage climate-related and environmental risks?

- Yes one or both, please specify which action would be relevant [BOX max. 2000 characters]
- No.
- **Do not know.**

**Question 90:** Beyond the possible general measures referred to in section 1.6, would more specific actions related to banks' governance foster the integration, the measurement and mitigation of sustainability risks and impacts into banks' activities?

- Yes/No/**Do not know.**
- If yes, please specify which measures would be relevant. [BOX max. 2000 characters]

### *Asset managers*

Traditionally, the integration of material sustainability factors in portfolios, with respect to both their selection and management, has considered only their impact on the financial position and future earning capacity of a portfolio's holdings (i.e., the 'outside-in' or 'financial materiality' perspective). However, asset managers should take into account also the impact of a portfolio on society and the environment (i.e., the 'inside-out' or 'environmental/social materiality' perspective). This so-called “double materiality” perspective lies at the heart of the [Disclosure Regulation](#), which makes it clear that a significant part of the financial services market must consider also their adverse impacts on sustainability (i.e. negative externalities).

**Question 91:** Do you see merits in adapting rules on fiduciary duties, best interests of investors/the prudent person rule, risk management and internal structures and processes in sectorial rules to directly require them to consider and integrate adverse impacts of investment decisions on sustainability (negative externalities)?

- Yes/**No**/Do not know.
- If yes, what solution would you propose? [BOX max. 2000 characters]

No, we think that sustainability risks as well as the adverse impacts are elements that will progressively, especially upon the data availability with NFRD reform, be more and more taken into account in the non financial and financial analysis that precedes investment decisions. The integration of ESG is currently a reality for half of the French industry and it is an important step in the awareness and avoidance of ESG related risks. But

fundamentally, the asset manager's fiduciary duty is to respect the fund mandate/state objective or promise, which is consubstantially for the vast majority of cases a financial objective. There should be no general mandatory sustainable objective either as a stand alone or as a competing objective for funds. Some funds may make the choice to have both objectives for their strategy and even some funds may go further ("fonds solidaires") in response to a specific client demand.

### *Pension providers*

Pension providers' long-term liabilities make them an important source of sustainable finance. They have an inherently long-term approach, as the beneficiaries of retirement schemes expect income streams over several decades. Compared with other institutions, pension providers' long-term investment policies also make their assets potentially more exposed to long-term risks. Thus far, the issues of sustainability reporting and ESG integration by EU pension providers have been taken up in the areas of institutions for occupational retirement provision (IORPs) ("Pillar II" - covered at EU level by the [IORP II Directive](#)) and private voluntary plans for personal pensions ("Pillar III" – covered at EU level by the [PEPP Regulation](#)) already in 2016 and 2017, respectively. The Commission will review the IORP II Directive by January 2023 and report on its implementation and effectiveness.

However, according to a [stress test](#) on IORPs run by EIOPA in 2019 and assessing for the first time the integration of ESG factors in IORPs' risk management and investment allocation, only about 30% of IORPs in the EU have a strategy in place to manage ESG-related risks to their investments. Moreover, while most IORPs claimed to have taken appropriate steps to identify ESG risks to their investments, only 19% assess the impact of ESG factors on investments' risks and returns.<sup>12</sup> Lastly, the study provided a preliminary quantitative analysis of the investment portfolio<sup>13</sup> which would indicate significant exposures of the IORPs in the sample to business sectors prone to high greenhouse gas emissions.

In 2017, the Commission established a High-level group of experts on pensions to provide policy advice on matters related to supplementary pensions. In its [report](#), the group recommended that the EU, its Member States and the social partners further clarify how pension providers can take into account the impact of ESG factors on investment decisions and develop cost-effective tools and methodologies to assess the vulnerability of EU pension providers to long-term environmental and social sustainability risks. The group also pointed out that, in the case of IORPs which are collective schemes, it might be challenging to make investment decisions reconciling possibly diverging views of individual members and beneficiaries on ESG investment. Moreover, in 2019, EIOPA issued an [opinion](#) on the supervision of the management of ESG risks faced by IORPs.

**Question 92:** Should the EU explore options to improve ESG integration and reporting beyond what is currently required by the regulatory framework for pension providers?

- Yes/No/**Do not know.**
- If yes, please specify what actions would be relevant in your view. [BOX max. 2000 characters]

**Question 93:** More generally, how can pension providers contribute to the achievement of the EU's climate and environmental goals in a more proactive way, also in the interest of their own sustained long-term performance? How can the EU facilitate the participation of pension providers to such transition?

- [BOX max. 2000 characters]

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<sup>12</sup>The analysis shows that the preparedness of pension schemes to integrate sustainability factors is widely dispersed and seems correlated to how advanced national frameworks were. IORP II directive sets minimum harmonisation and was expected to be transposed in national law by January 2019 (and hence could not necessarily be expected to be implemented by end-2018 for the EIOPA survey for the 2019 stress test).

<sup>13</sup> With almost 4 trillion Euros of assets under management, the EEA's Institutions for Occupational Retirement Provision (IORPs) sector is an important actor on financial markets.

**Question 94:** In view of the planned review of the IORP II Directive in 2023, should the EU further improve the integration of members’ and beneficiaries’ ESG preferences in the investment strategies and the management and governance of IORPs?

- Yes/No/**Do not know.**
- If yes, how could this be achieved, taking into account that IORPs are collective schemes whose members may have different views on ESG integration? [BOX max. 2000 characters]

### 3.3 Credit rating agencies

[Regulation 1060/2009](#) requires credit rating agencies (CRAs) to take into account all factors that are ‘material’ for the probability of default of the issuer or financial instrument when issuing or changing a credit rating or rating outlook. This covers also ESG factors. According to [ESMA’s advice on credit rating sustainability issues and disclosure requirements](#), the extent to which ESG factors are being considered can vary significantly across asset classes, based on each CRA’s methodology.

Following the 2018 Action Plan on Financing Sustainable Growth, and in response to concerns about the extent to which ESG factors were considered by CRAs, ESMA adopted guidelines on disclosure requirements for credit ratings and rating outlooks.

[ESMA’s Guidelines](#) on these disclosure requirements will become applicable as of April 2020. Pursuant to the guidelines, CRAs should report in which cases ESG factors are key drivers behind the change to the credit rating or rating outlook. Consequently, the current landscape will change in the coming months. The Commission services intend to report on the progress regarding disclosure of ESG considerations by CRAs in 2021.

**Question 95:** How would you assess the transparency of the integration of ESG factors into credit ratings by CRAs?

- Please express your view by using a scale of 1 (not transparent at all) to 5 (very transparent). **2**
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

[Main CRAs don’t currently apply the same level of transparency on financial and extra-financial rating and their methodologies may gain to be more transparent. We would suggest CRAs to comply with a Code of Conduct, and be more transparent on their methodologies.](#)

**Question 96:** How would you assess the effectiveness of the integration of ESG factors into credit ratings by CRAs?

- Please express your view by using a scale of 1 (very ineffective) to 5 (very effective). **3**
- If necessary, please explain the reasons for your answer. [BOX max. 2000 characters]

[It is useful in order to further assess the risks linked to an issuer and allow a better analysis. Though, contribution to a “common good” is far from being limited to risk management.](#)

**Question 97:** Beyond the guidelines, in your opinion, should the EU take further actions in this area?

- **Yes**/No/Do not know.

- If yes, please specify what kind of action you consider would address the identified problems. In particular should the EU consider regulatory intervention? [BOX max. 2000 characters]

EU could apply the same level of transparency as for investor.

### 3.4 Natural capital accounting or “environmental footprint”

Internal tools, such as the practice of natural capital accounting, can help inform companies’ decision-making based on the impact of their activities on sustainability factors. **Natural capital accounting or “environmental footprinting”** has the potential to feed into business performance management and decision-making by explicitly mapping out impacts (i.e. the company’s environmental footprint across its value chain) and dependencies on natural capital resources and by placing a monetary value on them. In order to ensure appropriate management of environmental risks and mitigation opportunities, and reduce related transaction costs, the Commission will support businesses and other stakeholders in developing standardised **natural capital accounting** practices within the EU and internationally.

**Question 98:** Are there any specific existing initiatives (e.g. private, public or other) you suggest the Commission should consider when supporting more businesses and other stakeholders in implementing standardised natural capital accounting/environmental footprinting practices within the EU and internationally?

- Yes/No/Do not know.
- If yes, please list a maximum of three relevant initiatives. [BOX max. 2000 characters].

There are several international ISO standards on life-cycle analysis, biodiversity and natural capital as well as on monetary valuation of environmental impacts, which could provide a basis or at least a starting point for development and adoption of common natural capital practices and standards.

### 3.5 Improving resilience to adverse climate and environmental impacts<sup>14</sup>

#### *Climate-related loss and physical risk data*

Investors and asset owners, be they businesses, citizens or public authorities, can better navigate and manage the increased adverse impacts of a changing climate when given access to decision-relevant data. Although many non-life insurance undertakings have built up significant knowledge, most other financial institutions and economic actors have a limited understanding of (increasing) climate-related physical risks.

A wider-spread and more precise understanding of current losses arising from climate- and weather-related events is hence crucial to assess macro-economic impacts, which determine investment environments. It could also be helpful to better calibrate and customise climate- related physical risk models needed to inform investment decisions going forward, to unlock public and private adaptation and resilience investments and to enhance the resilience of the EU’s economy and society to the unavoidable impacts of climate change.

**Question 99:** In your opinion, should the European Commission take action to enhance the availability, usability and comparability of climate-related loss and physical risk data across the EU?

- Yes/No/Do not know.
- If yes, please select all that apply:
  - Loss data, please explain why [BOX max. 2000 characters]
  - Physical risk data, please explain why [BOX max. 2000 characters]

Climate risks don't stop at country frontiers. Sharing the information is very important.

### *Financial management of physical risk*

According to a [report](#) by the European Environmental Agency, during the period of 1980-2017, 65% of direct economic losses from climate disasters were not covered by insurance in EU and EFTA countries, with wide discrepancies between Member States, hazards and types of policyholders. The availability and affordability of natural

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<sup>14</sup> Please note that the Commission is also preparing an upgraded EU Adaptation Strategy. A dedicated public consultation will be launched soon.

catastrophe financial risk management tools differs widely across the EU, also due to different choices and cultural preferences with regards to ex-ante and ex-post financial management in case of disasters. While the financial industry (and in particular the insurance sector) can play a leading role in managing the financial risk arising from adverse climate impacts by absorbing losses and promoting resilience, EIOPA has [warned](#) that insurability is likely to become an increasing concern. Measures to maintain and broaden risk transfer mechanisms might hence require (potentially temporary) public policy solutions.

Furthermore, the ongoing COVID-19 outbreak is highlighting the growing risk arising from pandemics in particular, which will become more frequent with the reduction of biodiversity and wildlife habitat. [UNEP's Frontiers 2016 Report on Emerging Issues of Environment Concern](#) shows that such diseases can threaten economic development.

In this context, social and catastrophe bonds could play a crucial role: the former to orient use of proceeds towards the health system (e.g. IFFIM first vaccine bond issued in 2006), and the latter to broaden the financing options that are available to insurers when it comes to catastrophe reinsurance. Such instruments would help mobilise the broadest possible range of private finance alongside public budgets to contribute to the resilience of the EU's health and economic systems, via prevention and reinsurance.

**Question 100:** Is there a role for the EU to promote more equal access to climate-related financial risk management mechanisms for businesses and citizens across the EU?

- Yes/No/Do not know.
- If yes, please indicate the degree to which you believe the following actions could be helpful, using a scale of 1 (not helpful at all) to 5 (very helpful) and substantiate your reasoning:
  - Financial support to the development of more accurate climate physical risk models.  [BOX max. 2000 characters]
  - Raise awareness about climate physical risk.  [BOX max. 2000 characters].
  - Promote ex-ante “build back better” requirements to improve future resilience of the affected regions and or/sectors after a natural catastrophe.  [BOX max. 2000 characters].
  - Facilitate public-private partnerships to expand affordable and comprehensive insurance coverage.  [BOX max. 2000 characters].
  - Reform EU post-disaster financial support.  [BOX max. 2000 characters].
  - Support the development of alternative financial products  (e.g. catastrophe bonds) offering protection/hedging against financial losses stemming from climate- or environment-related events. [BOX max. 2000 characters]
  - Advise Member States on their national natural disaster insurance and post disaster compensation and reconstruction frameworks.  [BOX max. 2000 characters].
  - Regulate by setting minimum performance features for national climate-related disaster financial management schemes.  [BOX max. 2000 characters].
  - Create a European climate-related disaster risk transfer mechanism.  [BOX max. 2000 characters].
  - Other, please specify. [BOX max. 2000 characters].

**Question 101:** Specifically with regards to the insurability of climate-related risks, do you see a role for the EU in this area?

- Yes/No/Do not know.

- If yes, which actions you would consider to be useful? In particular, is there scope for EU action to improve the offer of products and services for climate-related disaster risk reduction, enhance insurers' potential to promote increased resilience of their policyholders beyond a mere compensatory role?<sup>15</sup>
  - Yes/No/Do not know.
  - If yes, please explain which actions and the expected impact (high, medium, low). [BOX max. 2000 characters]
  - If no, please explain. [BOX max. 2000 characters]

**Question 102:** In your view, should investors and / or credit institutions, when they provide financing, be required to carry out an assessment of the potential long-term environmental and climate risks on the project, economic activity, or other assets?

- **Yes** / No / Do not know.
- If yes, what action should the EU take? Please list a maximum of three actions. [BOX max. 2000 characters]

[It is already included in different European regulations.](#)

#### **4. ADDITIONAL INFORMATION**

Should you wish to provide additional information (e.g. a position paper, report, further quantitative evidence, other) or raise specific points not covered by the questionnaire, you can upload your additional document(s). Please be aware that such additional information will not be considered if the questionnaire is left completely empty.

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<sup>15</sup>For instance, EIOPA in its [opinion on sustainability on Solvency II](#) talks about “impact underwriting which includes the development of new insurance products, adjustments in the design and pricing of the products and the engagement with public authorities without disregard for actuarial risk-based principles

of risk selection and pricing”.